MINISTRY OF FOREIGN TRADE AND ECONOMIC RELATIONS
BOSNIA AND HERZEGOVINA

BOSNIA AND HERZEGOVINA AGRICULTURE REPORT 2007

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It is with great pleasure that the Ministry of Foreign Trade and Economic Relations (MoFTER) presents the Annual Agriculture Report for 2007. The report provides:

(i) An overview of sector performance including a review of the main trends and developments in 2005/6;
(ii) Projections and policy priorities for 2008;
(iii) Statistical and other complementary information of relevance to the sector.

The report is intended to raise awareness of the current strengths and weaknesses in the agri-food sector and the major threats and opportunities that exist for the coming years. It is hoped that this will encourage more informed and focused debate between sector stakeholders on current and future policy priorities and choices to ensure that agriculture, food and rural sectors of Bosnia-Herzegovina can compete effectively in the 21st century.

Several developments in the agri-food sector in 2006 have been very encouraging and demonstrate that our country is clearly making progress in preparing itself for the challenges ahead. At the State and Entity level, new Agricultural Laws have been drafted reflecting modern and harmonized policy objectives. Economic indicators are also encouraging as the agri-food sector continues to grow for the fifth consecutive year. In foreign trade, the agri-food sector has also decreased its trade deficit for the second consecutive year and the food industry has attracted the highest share of Foreign Direct Investments (FDI) from all industrial sectors.

But the agriculture sector of B&H still faces major challenges in the next years. Membership of CEFTA, the WTO and the signing of a Stabilisation and Association Agreement (SAA) with the EU will lead to increased opportunities for agricultural exports on the one hand, but lower import protection, lower producer prices and increased competition on domestic markets on the other. It is anticipated that by the end of 2008, B&H will belong to a huge integrated regional market comprising the EU-27, the countries of former Yugoslavia and other key trade partners in Europe, with a combined population of approximately 600 million people. Strengthening B&H's ability to compete within this regional market will be central to agriculture sector development. A credible agriculture sector strategy and sound policies are essential pre-conditions for facing the challenges ahead of us. MoFTER and the Entity Ministries of Agriculture will ensure that these are in place and being implemented in 2008.

Essential public sector reforms will include measures to strengthen the coordination and management of the sector, enhance the role and focus of executive agencies responsible for food safety, veterinary and phytosanitary issues and accelerate the legislative and institutional reforms to ensure gradual compliance with WTO and EU standards. A stronger capacity to support rural development will also be developed. New public responsibilities will mean new organisational structures, and new jobs with different skill requirements. Some public roles will be relinquished or transferred to the private sector, while others will expand.

Support for the private sector will focus on strengthening the marketing chain, and improving the access of producers and processors to modern technology. Decisions as to the kinds of measures and activities to support will be made based on their importance in terms of their potential profitability, income generating and employment opportunities. The composition of agricultural production will gradually change as a result of new competitive pressures introduced by regional market integration. Production and sales of some of B&H's traditional agricultural products will expand, while the production of other commodities will fall.

Regional market integration will also have wide ranging implications for B&H's rural economy. Not all producers and agro-processors will benefit from improved market access for their products. Less efficient agro-processors and producers, and farmers with poor access to market outlets, lower quality land and insufficient scale of production will struggle to compete with imported products. These difficulties will affect the long-term sustainability of many rural communities. Rural development will thus become an increasingly important element of agricultural policy, particularly the design and implementation of measures to help rural people find alternative, non-farm sources of income and employment as overall employment in primary agricultural production declines.

With these challenges in mind, the institutions responsible for the sector recently adopted the following global objectives as the basis for agriculture sector development and the formulation of agricultural policy:

- *Promote the development of a diverse, sustainable, competitive and dynamic agriculture, forestry and food sector;*
- *Ensure harmonization and integration of the sector within the EU and world market place;*
- *Encourage the diversification of the economic activity, improve employment and income opportunities and the quality of life in rural areas;*
- *Ensure access to and availability of high quality, affordable and safe food; and*
- *Ensure the rational use and protection of natural resources and biodiversity.*

These global objectives for agriculture are consistent with the main economy-wide objectives of the government, to: establish stable, higher growth rates; to share the benefits of growth more equitably between groups and regions; and to move towards Europe.

If the sector is to be successful in making real progress with this programme and more effective in supporting the agriculture, food and rural sector it will require an unprecedented degree of cooperation between the various public and private institutions involved, at all levels. Gradual harmonisation of policies, programmes, institutions, laws, regulations, systems and services within B&H and with the EU will be the key theme. Year 2008 is intended to represent a watershed for the sector, during which the key management institutions responsible for the sector will shift their role from a predominantly regulatory and controlling function to a more service and support oriented function, minimizing controls where possible and targeting actions primarily towards the private sector, recognizing the entrepreneurial forces in the B&H agri-food chain as the driving force in the recovery of the sector, which must be actively fostered and facilitated at all levels.

The Ministry hopes that you will find this, the first annual report useful in your work within the sector for 2007/8 and welcomes your feedback on any aspect of the report to guide improvement of subsequent publications.

ACKNOWLEDGEMENTS

In preparing the 2007 Agriculture Report a significant number of individuals and institutions have been involved. Of particular note, the Ministry would like to acknowledge the support and express our appreciation for the efforts and contributions provided by the European Union, and in particular the SESMARD project, implemented by Vakakis International (Greece), that have initiated and guided the preparation of this first annual report; the staff of the MoFTER SAFFRD that have been the main technical coordinators in the writing, editing and translation of the Report; the Entity Ministries of Agriculture and District Brcko Department of Agriculture; various executive agencies working in the sector who have made contributions; and individuals from the following institutions that have provided invaluable contributions, information and comments on various aspects of the report including: the B&H Agency for Statistics and the Entity Agencies for Statistics; the B&H Chamber of Commerce; and the University of Sarajevo, Agriculture Faculty. We believe these contributions have greatly enhanced the quality of the Agriculture Report and hope that this support and cooperation will continue for the preparation of future publications and information services provided through MoFTER.

INFORMATION AND DATA SOURCE

Every effort has been made to verify the information contained within the report. Any remaining errors and omissions remain the responsibility of MoFTER SAFFRD. Official data sources (primarily from the B&H and Entity Agencies for Statistics) have been used to compile the report, supplemented by estimates where there were gaps in data sources. Whilst it is acknowledged that the accuracy and reliability of the data available may, in some cases, not fully reflect the actual situation on the ground, it is hoped that the information provided is sufficient to identify the main trends in production, processing and trade at a sufficient level of accuracy to guide short to medium term planning and sector development. For subsequent years it is planned to upgrade the information sources available on the sector through both targeted surveys and improvement in the quality of existing data collection systems. This approach will ensure that the Agriculture Report, that is now planned to be published annually by MoFTER, will be established as a primary reference source of sector information.

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BD	Brcko District
BHAS	Bosnia and Herzegovina Agency for Statistics
B&H	Bosnia and Herzegovina
CEFTA	Central European Free Trade Agreement
CIDA	Canadian International Development Agency
CMO	Common Market Organisation
€	Euro
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EPPU	Economic Policy Planning Unit
EU	European Union
FAO	Food and Agriculture Organization
FB&H	Federation of Bosnia and Herzegovina
FB&H MoA	Ministry of Agriculture, Water Management and Forestry of the FB&H
FDI	Foreign Direct Investment
FSA	Food Safety Agency
FSC	Food Safety Certificate
FTA	Free Trade Agreement
GAO	Gross Agricultural Output
GDP	Gross Domestic Product
HACCP	Hazard Analysis and Critical Control Point
IPA-RD	Instrument for Pre-accession Assistance – Rural Development (EU)
ISO	International Organization for Standardization
KM	Convertible Marks (Bosnian currency – 1€:1.95KM)
LAMP	Linking Agricultural Markets to Producers (USAID funded project)
LSMS	Living Standards Measurement Study
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MoFTER	Ministry of Foreign Trade and Economic Relations
MTDS	Middle Term Development Strategy
OECD	Organization for Economic Co-operation and Development
RS	Republic of Srpska
RS MoA	Ministry of Agriculture, Forestry and Water Management of the RS
SAA	Stabilisation and Association Agreement
SDC	Swiss Agency for Development and Cooperation
SESMARD	Support for Establishment of the State Ministry of Agriculture and Rural Development (an EU funded project)
SIDA	Swedish International Development Agency
UHT	Ultra Heat Treated (Milk)
WB	World Bank
WTO	World Trade Organisation

1 THE AGRI-FOOD SECTOR WITHIN THE NATIONAL ECONOMY

1.1 Macro and socio-economic situation

In 2006, the positive trend in GDP growth of Bosnia and Herzegovina, at an average 5% per annum, was maintained (when calculated year-on-year, at constant prices).

In current prices the overall GDP in 2006 amounted to KM 19,100 million (approx. € 9,800 million) or some KM 4,970 (approx. € 2,550) per capita. The primary sources of economic growth over the last five years have been in the business sector, with increasing reliance upon the raw materials and related manufacturing sectors in the creation of new value. Increased production in these sectors, as well as price increases for commodities, contributed positively to growth.

The percentage of GDP accounted for by basic industries (including agriculture, hunting, forestry and fishing) has seen a gradual increase (from 34.8% in 2004 to 34.0% in 2006), whereas the service sectors gradually increased their share (from 65.2 % in 2004 to 66.0 % in 2006).

Inflation remained relatively low, at 5%, in 2006, though there was a small increase on the previous year (i.e. 2.6% in 2005 and less than 1% inflation recorded in previous years). The increase was mainly driven by price increases in anticipation of the VAT introduction but also by some administrative price increases and higher energy prices.

Table 1: Main macro-economic indicators (2003- 2006)

	Units	2003	2004	2005	2006
Population[1]	'000	3,832	3,843	3,844	3,845
Surface area	Km2	51,209			
GDP, current prices	KM million	14,505.4	15,785.9	16,927.8	19,105.8
GDP per capita, current prices	KM	3,785	4,108	4,404	4,969
GDP constant prices, annual percent change	%	4	6	4	6
Current account balance in percent of GDP	Ratio	-22.4	-24.4	-26.4	-23
Inflation, annual percent change	%	0.6	0.3	2.8	5
Exchange Rate to the €	KM	1.95	1.95	1.95	1.95

Source: *Statistical bulletins of Agency for Statistics of Bosnia and Herzegovina*

[1] *There are differences in the population data between different sources. The one used here is based on the data published by the Statistics Agencies of the Entities*

2006 has seen a positive development of B&H's foreign trade. While overall foreign trade significantly increased between 2002 and 2006 the current account deficit was for the first time in many years reduced from 26.4% of GDP in 2005 to 23.0% of GDP in 2006.

Official unemployment data indicates that unemployment rose from 42% in 2004 to 44% in 2005. However, analysis suggests this may hide a more healthy employment rate due to unofficial employment, particularly in the agriculture and food sector. Estimates suggest that actual unemployment is around 20% of the working population.

1.2 Agriculture in the B&H economy

The agriculture, food and forestry sectors remain highly important economically for B&H due to their direct and indirect linkages with the rest of the economy. However, according to official statistics available, the primary agriculture and forestry sectors accounted for only 8,7% of GDP in 2006 and the share of the agri-food sector (agricultural production and food processing without forestry) in total recorded employment for the whole of B&H is officially estimated to be only 7.4%. Due to unrecorded and under-recorded production, trade and employment these estimates are likely to be a significant under-representation of the actual economic significance of the sector for B&H.

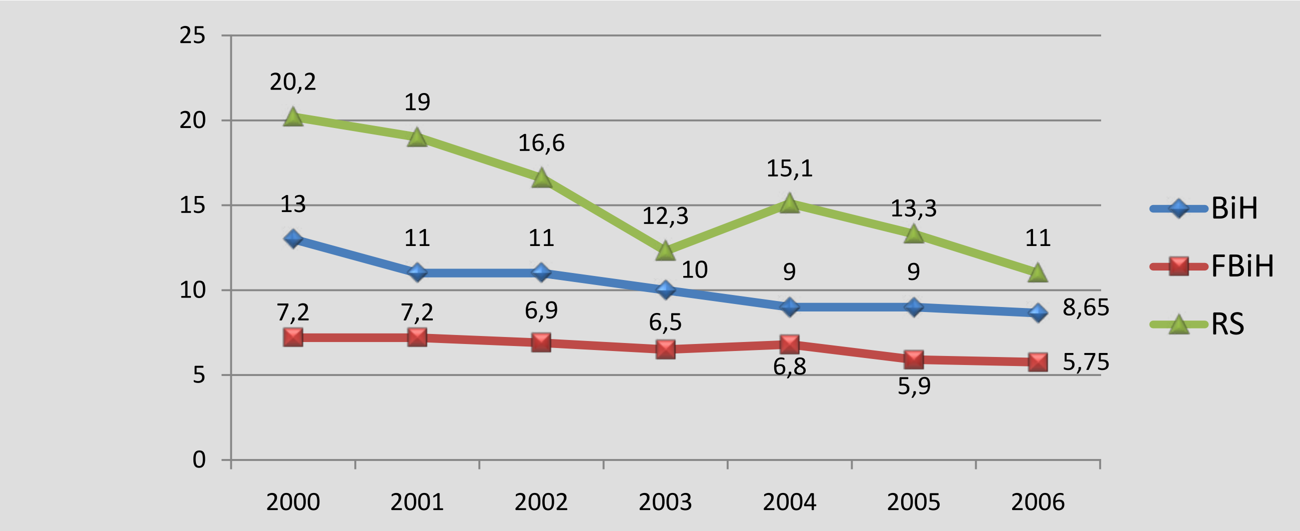
Table 2: Key agricultural indicators for B&H, in comparison with the EU in % (2005/2006)

	B&H	EU 25(2005)
Share of Agricultural Land in Total Land (2005)	50,3%	40,8%
Share of Arable Land and Permanent Crops in Total Land (2005)	31.0%	n/a
Share of GAO in Total GDP (2006)	8,7%	1,6%
Share of Agricultural Labour in Total Labour (2005)	3,6%	5,0%
Share of Agri-food Labour in Total Labour (2005)	7,4%	n/a
Share of Agricultural Export in Total Export (2006)	5,0%	6,0%
Share of Agricultural Import in Total Import (2006)	17,1%	6,0%
Share of Rural Population in Total Population (2005)	61,0%	18,0%

Source: *Statistical bulletins of Agency for Statistics of Bosnia and Herzegovina and estimates and reports from the Economic Institute, Sarajevo**; EU 25 data** – DG Agri "Agriculture in the European Union".*

Gross Agricultural Output (GAO) is also increasing, although it appears that this is not happening as rapidly as some other sectors of the economy. Thus the share of agriculture, forestry and fishery in overall GDP has been decreasing over the last years despite the increase in absolute numbers. When analysed by Entity, available statistics indicate that the sector is more important for the economy of Republika Srpska (RS) than for the Federation of B&H (FB&H). The share of the sector in total entity GDP of the Republika Srpska (RS) in 2006 is estimated to have declined slightly at around 10-11% (13, 3% in 2005). In the Federation of Bosnia and Herzegovina (FB&H) the primary agriculture and forestry sectors appear to have remained stable at around 6% of total entity GDP in 2006.

Figure 1: Sector share in overall GDP (in %): B&H, FB&H, RS (2000 - 2006)

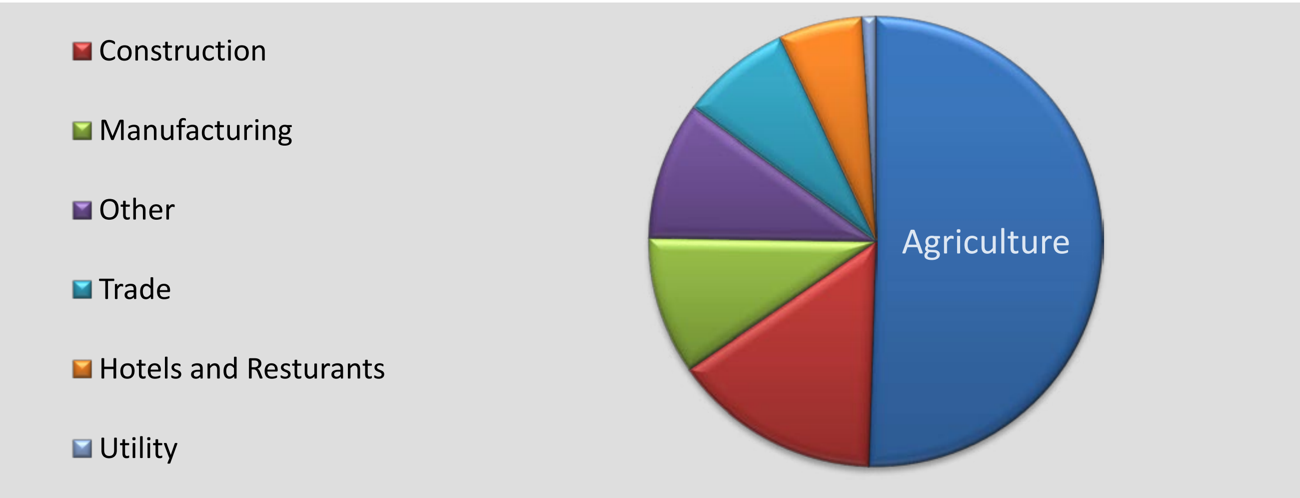


Source: *BHAS, FB&H Statistical office, RS Statistical office*

For the third consecutive year agriculture decreased its share in the overall imports of the country (17.1% in 2006). Agri-food exports continued to increase in absolute terms in 2006, although at a slower pace than overall exports (agri-food's share in total exports was 5% in 2006). Thus for the second consecutive year, 2006 saw a decreasing trade deficit in agri-food products.

Taking into account small-scale, subsistence and semi-subsistence farmers which still dominate primary agricultural production, the share of agriculture in total employment in B&H is estimated to be as much as 50%. Based on a survey conducted with support of the World Bank in 2004, subsistence and semi-subsistence farmers are estimated to total around 190,000, of whom 60% are located in the RS and 40% in the FB&H. This makes agriculture the most significant sector for informal employment.

Figure 2: Distribution of employment in informal sector (2004)



Source: *World Bank estimates based on LSMS Survey (2004)*

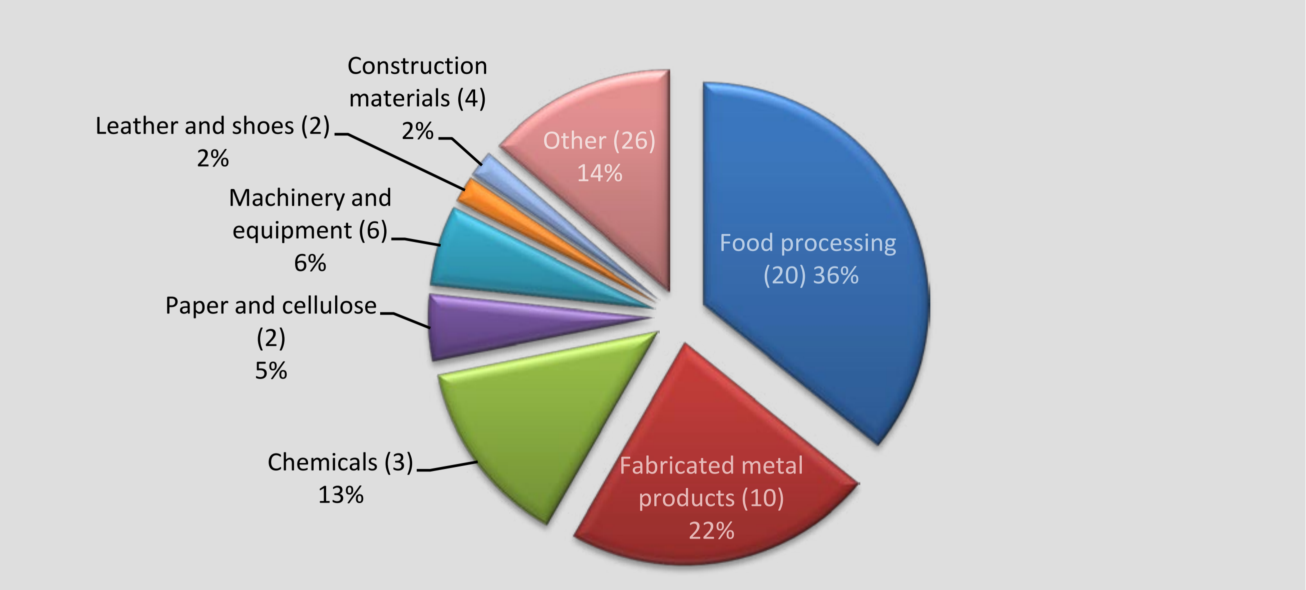
Another indicator for the significance of agriculture for the country is the very high percentage of rural population in the overall population, estimated to be 61% in 2005, based on available population data at Entity level (using the OECD definition of rural areas as those areas with a population density of >150 per square kilometre). The most important role of agriculture in the overall economy is currently that it provides opportunities for basic income generation for a major part of the rural population. Taking into account that the most significant increase of poverty (2001/2004) was recorded within those that are employed in the informal sector, it underlines the importance of the sector for the political and economical stability of the overall country.

1.3 Food and Food-processing in the Economy

Food and food processing contributes significantly to overall GDP. Food and drink processing gross output in 2004 was KM 1,035 million and in 2005 it substantially further increased to reach KM 1,283 million. Thus the share of the sector in the overall GDP has increased over this period from about 7% to 8% respectively.

The recent trend is very encouraging and a result of increased efforts to support the sector following a long period of under-investment over the last decade, during which the food industry was forced to work at very low levels of capacity utilisation, leading to diseconomies of scale and in some cases, closure of food processing plants. As a consequence the negative trade balance in agri-food products constantly widened. A number of laws to improve corporate governance and the business climate were adopted between 2004 and 2006 and have led to an improved structural framework for the industry including but not limited to the food industry. Experts estimate in the absence of reliable statistics that by 2006 approximately 80% of the food and food processing sector had been privatised. Most encouraging of all is that in 2006 the food processing sector attracted the largest amount of foreign direct investment (totalling some KM 66.9 million or 37% of total FDI in 2006), as well as the highest number of individual investments within overall B&H industry. It is hoped that this positive trend can be further supported with new agri-food processing policy support measures in the next period.

Figure 3: FDI in industry (2006)



Source: *EPPU estimates, 2007*

However, despite this very positive trend, in 2006, B&H remains a significant net importer of food and food products, although the overall share of agriculture, food and food products in overall imports indicates a decreasing trend over the last years (see agri-food trade section of the report below for more details).

2 LAND USE, FARM STRUCTURE AND LABOUR

2.1 Land Use and Quality

The total area of Bosnia and Herzegovina is 5,113,000 ha of which 50.3% is agricultural land (2,572,000 ha) and 49 % is forestry area (2,470,000 ha). Total arable land in B&H amounts to approximately 1.6 million ha (or 62% of agricultural land): approximately 760,000 ha in FB&H, 820,000 ha in the RS and 30,000 ha in District Brcko. The ploughed land area amounts to 1,018,000 ha or 19.9% of the total land, of which 478,000 ha or 47% is uncultivated. There are about 0.59 hectares of agricultural land per capita, of which 0.36 ha are fields and gardens.

B&H is characterized by its mountainous nature with 66% of the total land area considered to be mountainous or hilly. A further 5% of lands are classified as lowlands and 29% are karst landscapes. Geographically the lowland areas are found to the north whilst the karst region is predominantly located in the northwest and south-southeast. The highland and hilly areas are extended in central parts of B&H. The highland band from the northwest to the southeast have a significant impact on the climate and particularly precipitation, of various areas. The combination of topography and climate with soil types gives rise to a complex pattern of land use. High mountainous and hilly areas are largely covered by forests, of which there are approximately 2.7 million hectares in B&H.

45% of agricultural land is hilly (300-700 meter above sea-level), of medium quality and well suited to semi-intensive livestock production. Mountain areas (more than 700 m a.s.l.) account for a further 35% of agricultural land but high altitude, steep slopes and lower fertility soils limit the use of this land to livestock grazing during the spring and summer. Less than 20% of agricultural land (half of all arable land) is suited to intensive agriculture, most of it in lowland river valleys. Natural water resources are more abundant, with many unpolluted rivers and readily accessible groundwater.

2.2 Farm Structure and Ownership

Bosnia and Herzegovina has a complex land ownership recording system consisting of the land register and the cadastre. The land register dates back to Austro-Hungarian times and is technically still maintained on this basis, except for a smaller part of the territory where the real estate cadastre has been established based on the new cadastral survey. In legal terms, the land register is the public ledger and public register of rights to real estate. The keeping, maintenance and establishment of the land register, and registration of the real estate and real estate rights is regulated by separate Entity and Brcko District legislation, namely the Law on Land Registry in the Federation of Bosnia and Herzegovina ("FB&H OG" No. 19/03 and 54/04) and the RS Law on Land Registry ("RS OG", No. 67/03, 46/04, and 109/05) and the Law on Land Registry in the District Brcko ("BD OG" No.11/01, 1/03, 14/03), all of which are harmonized. Pursuant to these laws, each Entity adopted the following Rulebooks: the Rulebook on Introduction of Electronically Maintained Land Registries; the Rulebook on Procedures in Land Registry Matters; and the Rulebook on Education and Specialist Examination for Land Registry Clerks. Brcko District adopted the Rulebook on the Presentation of the Data for Public Consideration on Survey and Cadastre Classification of the Land and Registration of the Real Estate Ownership Rights.

In FB&H a part of the territory is recorded in a real estate cadastre, which is governed by the *Law on Survey and Real Estate Cadastre,* adopted in 1984. At the time when the Law on Land Registry came into force in 2002, Article 93 repealed all provisions of *the Law on Survey and Real Estate Cadastre* insofar as they were of relevance for the recording and registration of ownership rights and other obligation-related rights to real property. By that point in time the real estate cadastre was established on about 10% of the territory of Bosnia and Herzegovina.

In RS the *Law on Survey and Real Estate Cadastre* ("RS Official Gazette" No. 55/03 and 46/04) was regulating the survey and real estate cadastre, which is replaced by the new *Law on Survey and Real Estate Cadastre* adopted in March of 2006. There is also *the Law on Maintenance of the Survey and Land Cadastre* ("RS Official Gazette", No. 19/96) as a still applicable law, except for its Articles 6 and 7, which have been repealed and are no longer effective.

In FB&H *the Draft Laws on Survey and Real Estate Cadastre* are in an on-going adoption procedure. Both of those entity laws are harmonised. The main purpose of this new law is to introduce a new division of tasks and promote the use of more modern technologies, ensuring harmonization of the legislation of both entities.

There is a substantial amount of case work to be completed, as over the last 10 years as much as 600,000 displaced people and refugees have returned to Bosnia and Herzegovina, mainly to urban centres. However, gradually some of these people have begun to return to rural areas. In B&H today, about 94% of the agricultural land is privately owned and is farmed privately. The restriction on the parcel size of 10 hectares of flat land and up to 15 hectares of hilly land for private land owners was abandoned. About 5% of arable land is still held by state farms.

Farm and agri-food industry structure and ownership: The last published official data regarding the structure of farms was in the 1981 agricultural census, and data regarding the number of farms was published in the 1991 agricultural census (569,581 farms).

Table 3: Farm Structure (1981)

Group of farms according to their size	Farms		Utilized agricultural area	
	Number	Structure (%)	ha	Structure (%)
Total	540,301	100	1,639,921	100
Up to 2 ha of UAA	291,593	53.97	254,584	15.52
Above 2 ha to 5 ha	159,263	29.48	547,109	33.36
Above 5 ha to 10 ha	73,776	13.65	527,142	32.14
Above 10 ha to 100 ha	15,669	2.9	311,086	18.97

***Source**: Republic Institute of Statistics of Bosnia and Herzegovina, Statistical Bulletin 101, 1983.*

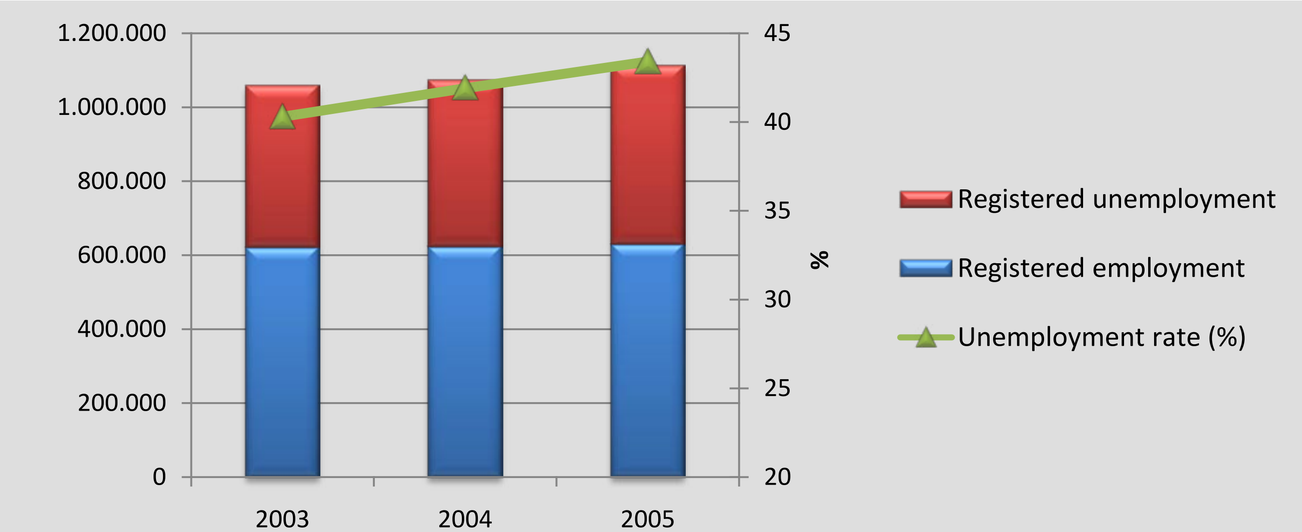
In 2006, it is estimated that there are over 500,000 agricultural holdings in B&H. Over 50% of these agricultural holdings are estimated to be less than 2 ha and over 80% are less than 5 ha. These small farms are often further divided into 7-9 smaller parcels creating major problems for productivity and overall efficiency. Although the size of land areas actually cultivated by individual farms may be larger, the extent of land fragmentation restricts the adoption of more modern agricultural systems. In the livestock sector small-farm cattle production is characterized by small herds and seasonal milk supply. Of the farmers who owned cattle in the early 1990's, 60 percent had only one cow, 30 percent had two and less than one percent had five or more cows. Regarding sheep-raising, ninety-five percent of sheep production takes place on small, private farms and low-input management systems predominate.

Recent surveys indicate that subsistence and semi-subsistence farms, who consume the majority of their production and produce only little marketable surplus, remain the dominant form of farm structure in B&H. However, in recent years, there is increasing evidence of more farmers producing for market. Most commercially oriented farms tend to be larger. But most of these are currently restricted in their development due to their status as partially privatised entities, limiting the access and use of modern management and investment capital, and with many having leased parts of their lands to smaller private farmers. Overall, the need for consolidation of fragmented farm holdings into more viable economic units is recognized as one of the most pressing agricultural policy issues in B&H today. A number of laws and procedures have been introduced in recent years in both entities to allow an agricultural land market to develop but further measures are required to provide sufficient incentive to amalgamate holdings and generally to strengthen the domestic land market.

2.3 Labour

Unemployment is the biggest economic and social problem of Bosnia and Herzegovina, having the same importance in both rural and urban areas. According to official statistics, in 2005, 43.4% out of total registered labour force (1,113,103), were recorded as unemployed.

Figure 4: Registered Employment, Labour Force and Unemployment Rates in B&H, 2003-2005:



Source: *Labour Force, Employment and Unemployment in B&H, EPRU Working paper No 1, March 2006.*

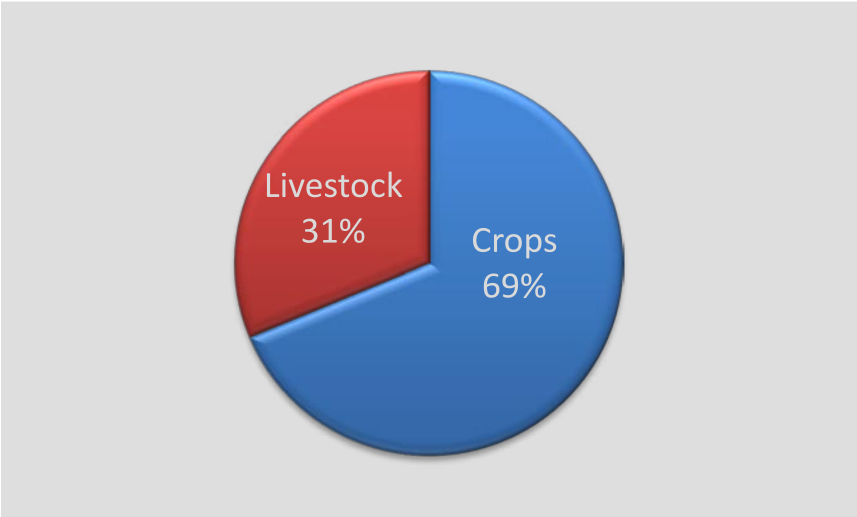
Agriculture is still one of the most important economic sectors in Bosnia and Herzegovina providing food security for a significant part of the rural population. A large proportion of the active labour force remains in rural areas, where primary agriculture plays a crucial role. As unemployment has stayed high and alternative employment opportunities are limited, reliance on agricultural employment and income has increased. The sector has become a social safety net for many in rural areas. However, according to official data sources, only 3.1% of the labour force is employed in agriculture. But this figure includes mainly those officially employed in former state-owned big firms and cooperatives rather than private agriculture. Alternative estimates suggest that the share of agriculture in total employment, when taking into account unrecorded employment on private farms is around 18%, rising to more than 40% when taking into account other agriculture and food based activities.

3 AGRICULTURE AND FOOD PRODUCTION

3.1 Total Agricultural Production

Agricultural production in B&H is dominated by crop production, with livestock production representing less than one third of the total output. Based on available data, crop production had in 2005, an approximate share of 69% of the total Gross Agriculture Output. However, in the period from 2001 to 2006 the share of livestock production in the GAO has increased. Estimates (based on 2003 constant prices) put the livestock production in 2006 at more than 31% of GAO mainly due to the production increase in cow milk.

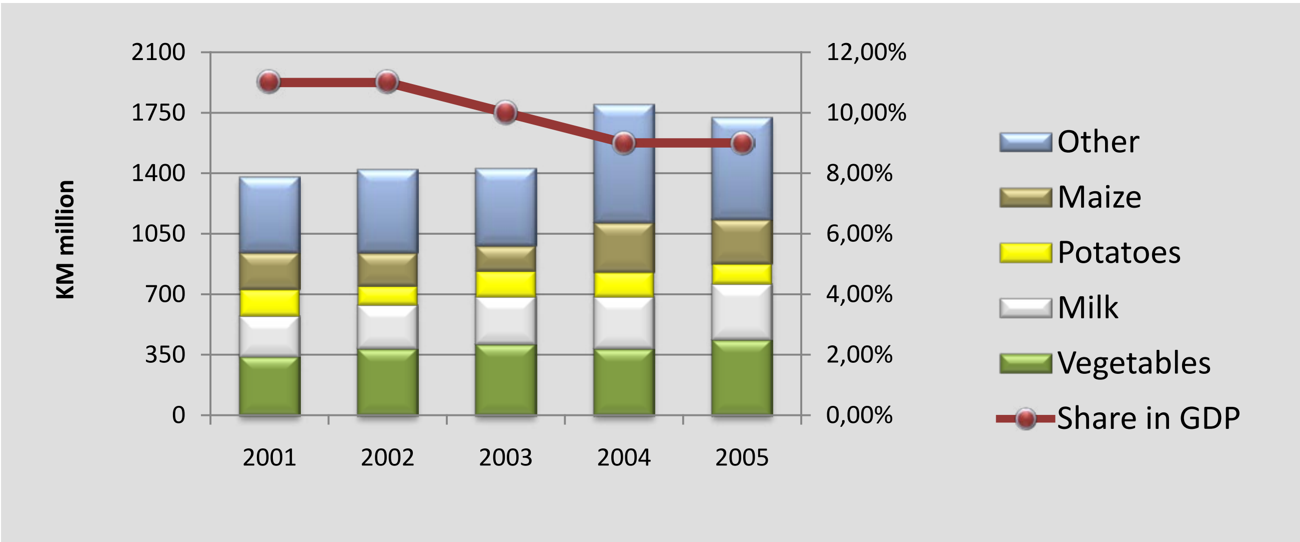
Figure 5: Shares of Crop Production and Livestock Production in overall GAO (2005)



The economically most important sub-sector of B&H agriculture is vegetables, which contributed in 2005 some KM 435 million to the overall GAO. Of considerable importance were also fresh cow-milk (approximately KM 320 million in 2005), maize (approximately KM 260 million in 2005) and potatoes (approximately KM 120 million in 2004).

***Source**: FAOSTAT*

Figure 6: Gross Agricultural Output (million KM) and Share in GDP



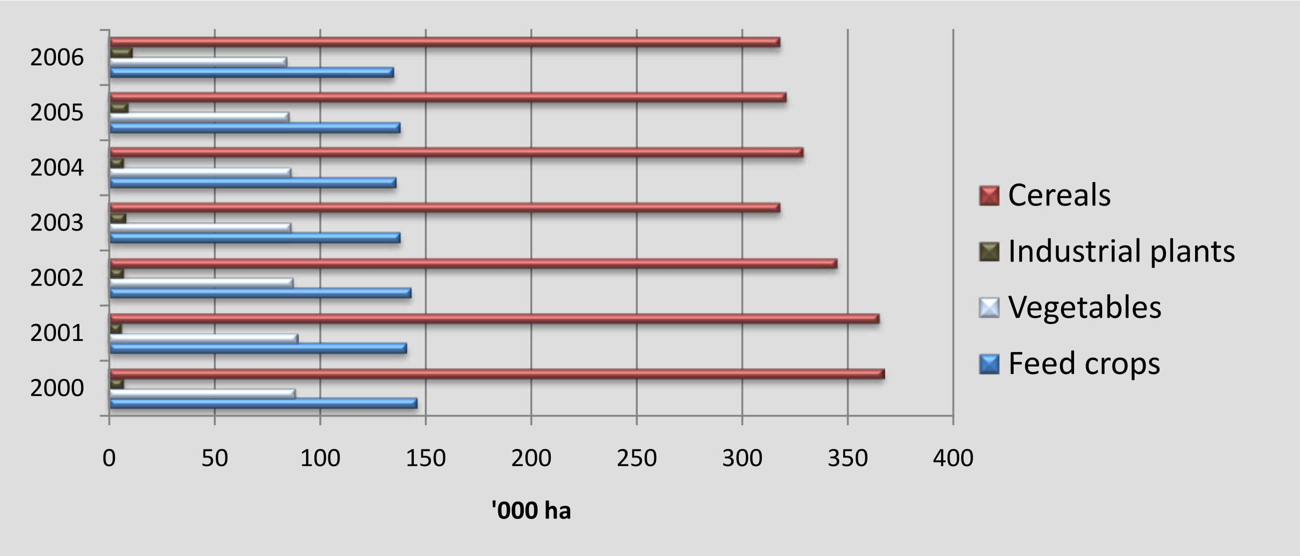
***Source:** FAOSTAT and expert estimates*

The sector recorded a modest increase of the overall GAO between 2001 and 2003, when it amounted to KM 1,425 million. In 2003 the yields were very bad due to bad weather and thus in 2004 with a good harvest the overall GAO increased more substantially to approximately KM 1,750 million, whereas in 2005 the overall GAO slightly decreased due to (on average) slightly lower prices. It is estimated that in 2006 (based on 2003 constant prices) GAO driven by vegetable and milk production increased to approximately € 1,800 million.

3.2 Crop Production

Cereals: In 2006, in 548,000 ha of total sown ploughed field surfaces, the share of cereals was 58%, respectively 318,000 ha.

Figure 7: Sown area by crop groups (2000-2006)

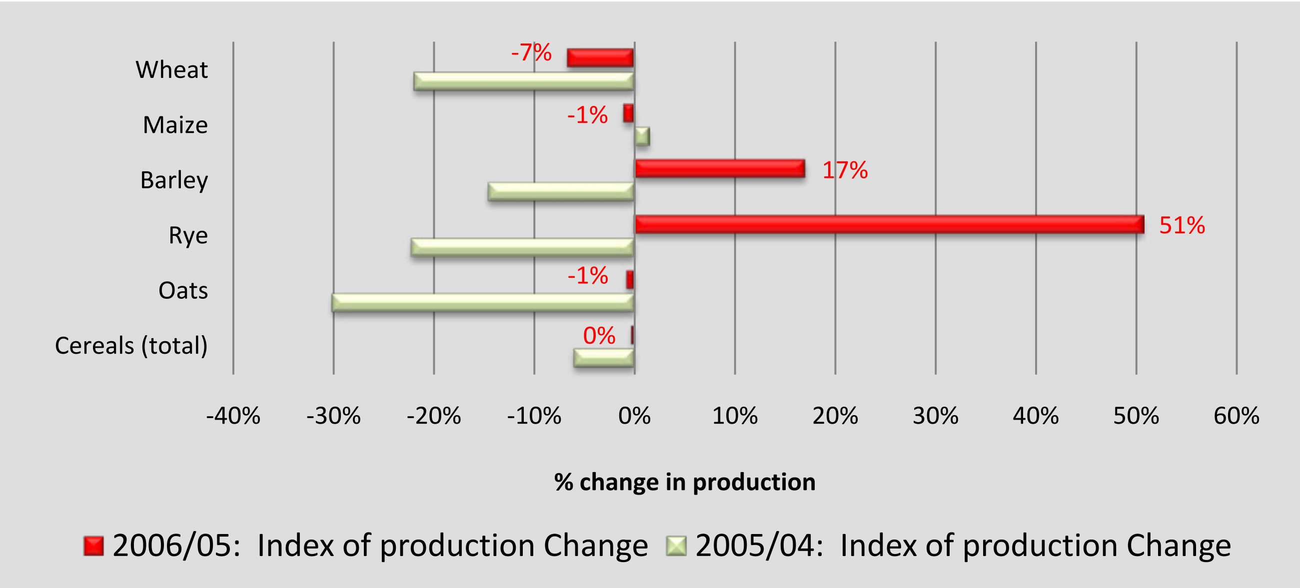


Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina*

The leading crops in the structure of land surfaces sown with cereals are maize (kernel) with 195,600 ha (62%) and wheat with 73,300 ha (23%), while barley, rye, oats and triticale, sown on remaining 47,400 ha, are of less importance. The production achieved in 2006 was as follows: wheat 232,500 tons, barley 62,500 tons and oats 41,500. Total maize production in 2006 was 993,800 tons.

Average yields per hectare of all cereal crops are slightly less than those achieved in EU countries: While the average yield per ha of all cereal crops was 4.2 t in B&H in 2006, it was approximately 5.7 t in the EU25. In order to further increase the average yields it might be appropriate to increase the farm size in the less mountainous regions of B&H and to apply more advanced agro-technical measures such as artificial fertilizers and herbicides.

Figure 8: Cereal production by crop (production changes 06/05, 05/04)



Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina, Statistical Yearbooks of Federal Office of Statistics, Statistical reviews of Statistical Institute of the Republika Srpska, Statistical office of District Brcko.*

Total surfaces sown with cereals in 2006 decreased by 14% compared with 2000, by 30% for wheat, by 6% for maize, by 3% for barley and by 32% for oats.

Cereal storage capacities in Bosnia and Herzegovina vary from a few thousand tonnes to 65,000 tonnes. The quality of storage facilities and their technical characteristics vary considerably. Formerly state owned mills tend to use more up to date and larger scale storage equipment but many small, private mills rely on low grade, smaller storage units and under-investment.

Guaranteed minimal purchase prices for wheat, maize and other cereals in recent years have not generated marked changes in production levels. Currently there are only very limited stocks of cereals. Until the early nineties stocks were determined by law, and each state-owned mill was obliged to have on stock a certain quantity, for which the state compensated the mill. Commodity stocks were mainly created by buying up domestic production. This system is being slowly dismantled over recent years.

Currently B&H has a significant trade deficit in cereals. With insufficient domestic cereal production, particularly wheat, the country imports significant quantities from neighbouring countries with whom it has close trade relations.

Fruit: Over the last years the number of productive trees has increased considerably. Between 2004 and 2006 the number of productive fruit trees consolidated between 17.5 – 18 millions which is about 2 millions more than in 2000 and only 1 million less than in the late 1980ies. Statistical data for 2006 shows that traditionally the greatest share of all productive fruit trees produces plums (10.4 million trees or 60%), followed by apples (3.7 million trees or 21%) and pears (1.7 million trees or 10%). New apple orchards were the driving force behind this increase in trees: In 2006 there were 1.3 million apple trees more than in 2000.

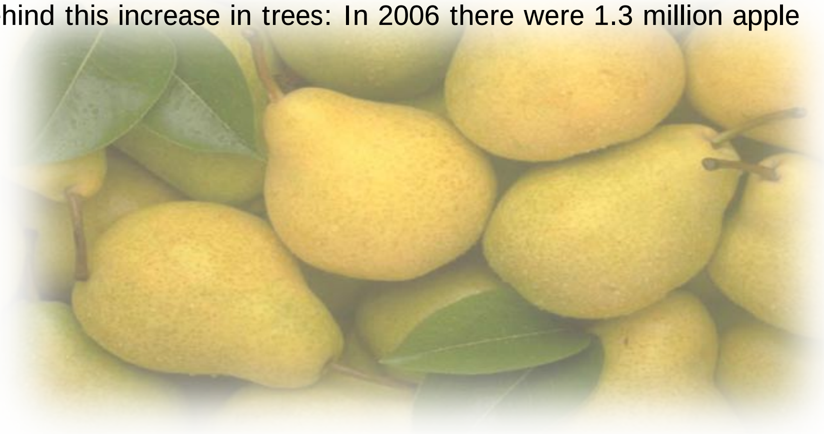
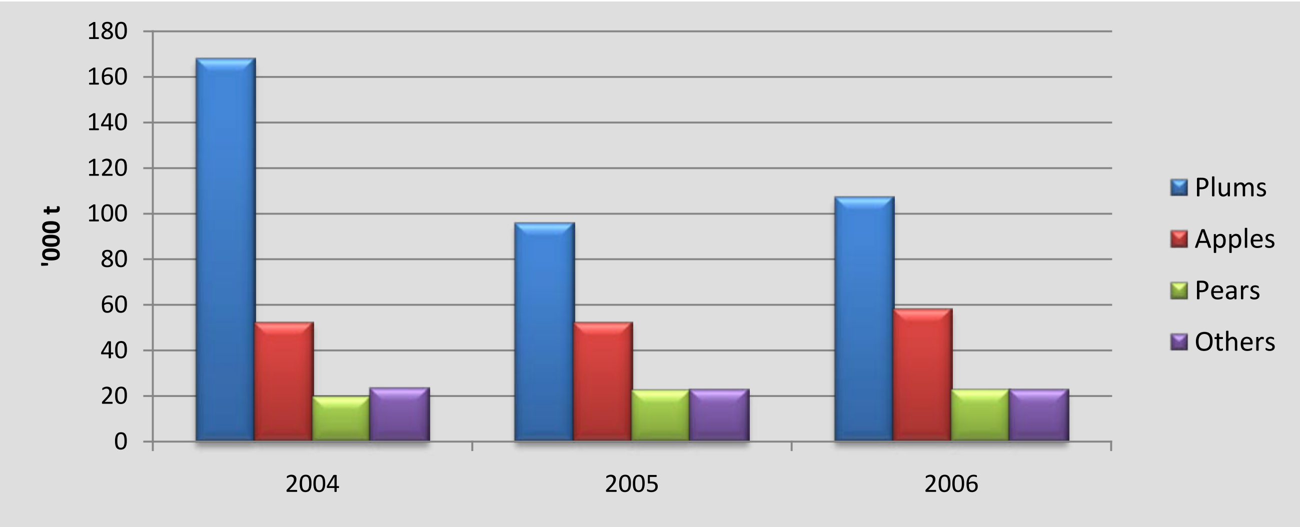


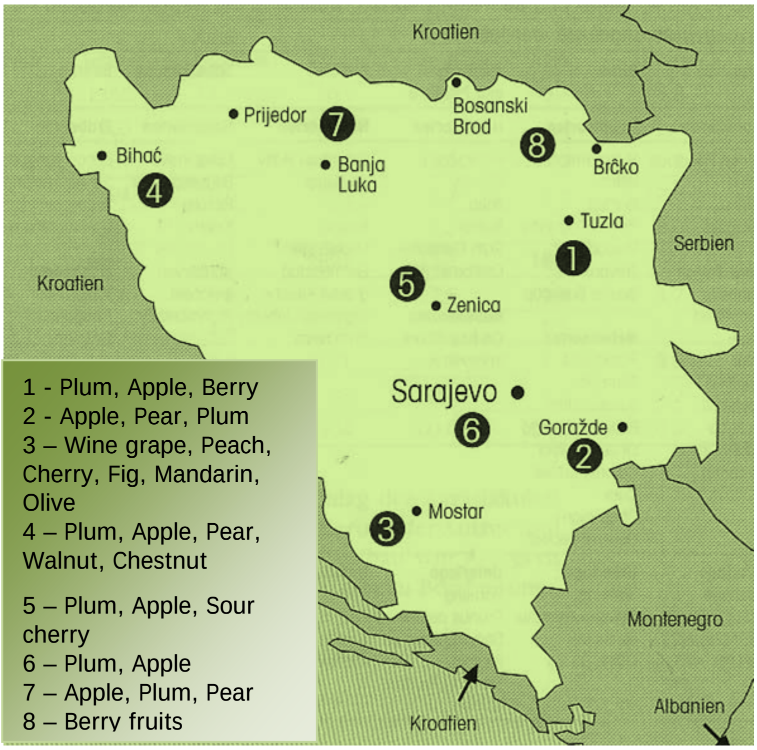
Figure 9: Fruit production (2004 - 2006)



Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina, Statistical Yearbooks of Federal Office of Statistics, Statistical reviews of Statistical Institute of the Republika Srpska, Statistical office of District Brcko.*

Total fruit production in 2006 was 211,000 tons and thus more than in the previous year (193,000 tons), but due to weather conditions much less than in 2004 (263,000 tons).

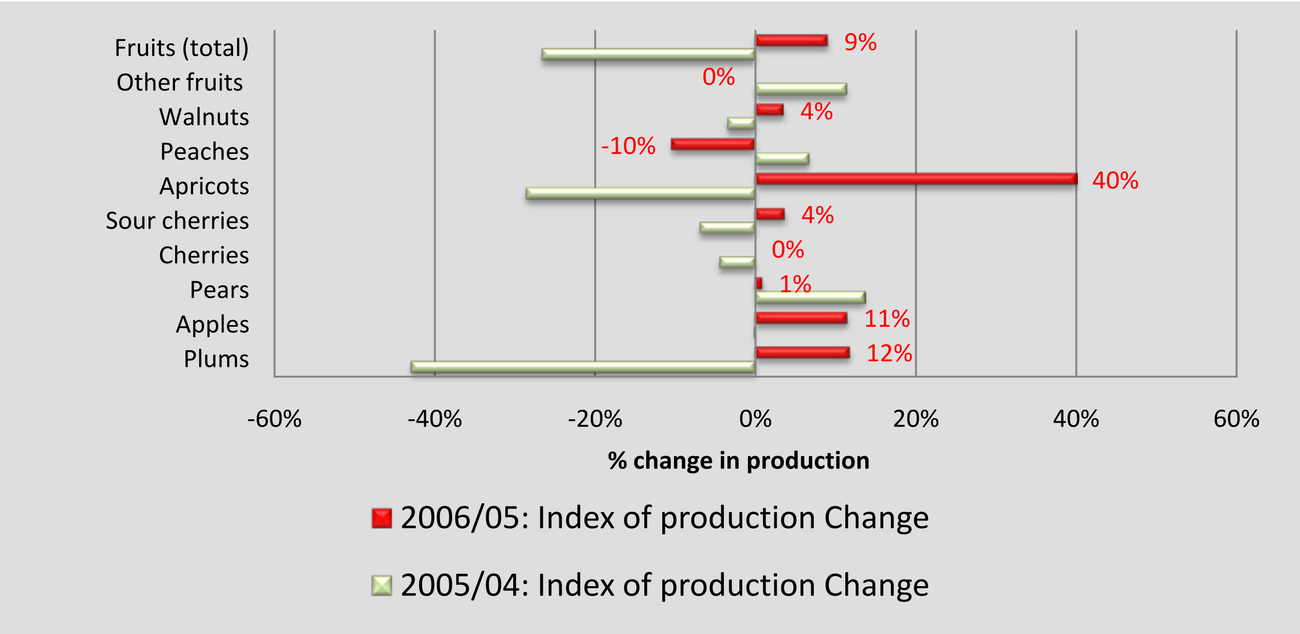
Map 1: The eight most significant fruit and grape areas



Average yields are currently modest and have the potential to be further increased. Extensive production techniques place more emphasis on the quality of production, with minimal application of fertilizers and pesticides. Varieties are somewhat limited. Introduction of certain new varieties and improvement in training of farm labour has resulted in increases in productivity in some areas of the country.

The main fruit crops include plums, apples and pears but production of other minor fruit crops is increasing. This refers particularly to the production of berry fruits (especially strawberries and raspberries). The increase in production is especially noticeable in the northeast of the country. New berry production has tended to utilise more up-to-date technologies which has resulted in higher yields and the ability of the farmers to further invest in expansion of their production.

Figure 10: Fruits by crop (production changes 06/05, 05/04)

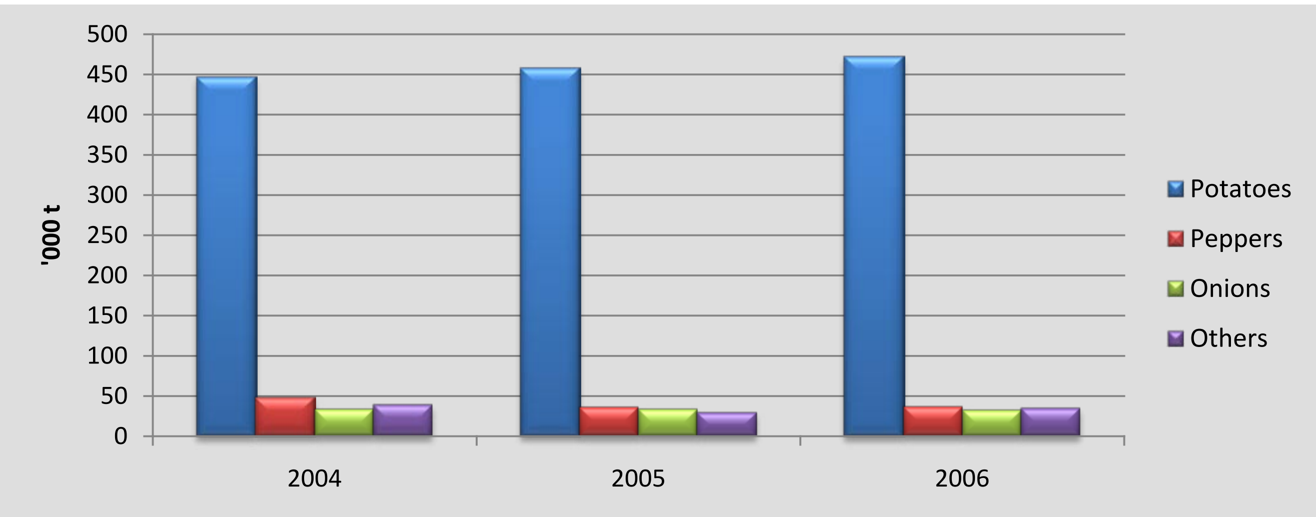


Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina, Statistical Yearbooks of Federal Office of Statistics, Statistical reviews of Statistical Institute of the Republika Srpska, Statistical office of District Brcko.*

The impact of increased government support schemes to support development of new orchards does appear to be an important factor in encouraging some of these positive developments in the fruit sector. More investment in both primary production and intermediate storage (i.e. cooling, warehouse storage and farmer market facilities) is required to raise overall production, productivity levels and efficiency of the fruit supply chain to satisfy domestic demand throughout the year, much of which is currently being met by high levels of imports.

Vegetables: Bosnia and Herzegovina has good agro-climate conditions for growing some of the main vegetable crops. Its importance in the contribution to the GAO of B&H is confirming the potential of the sector for the agricultural sector in B&H.

Figure 11: Vegetable production (2004 - 2006)

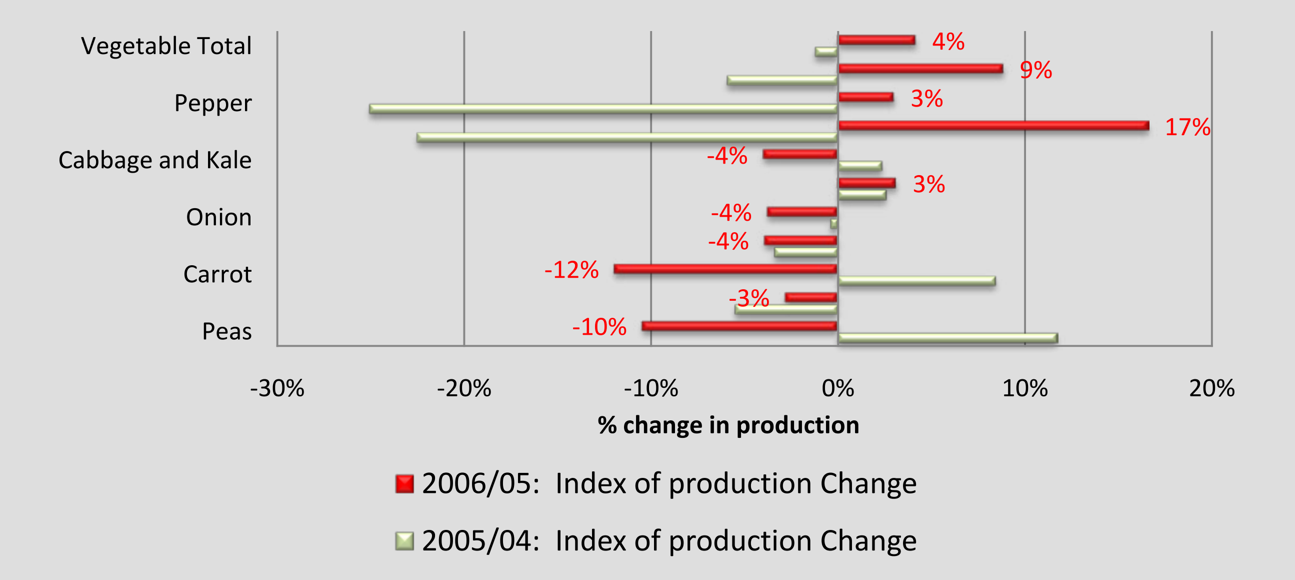


Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina, Statistical Yearbooks of Federal Office of Statistics, Statistical reviews of Statistical Institute of the Republika Srpska, Statistical office of District Brcko.*

In 2006 the share of vegetables in total sown ploughed field surfaces was 15.4% (84,300 ha). The most important vegetable crop is potato, which is sown on 40,800 ha (48% of the area sown with vegetables) in 2006. The total potato production with an average yield of 11.3 tons per hectare was around 460,000 tons. That means Bosnia and Herzegovina is self-sufficient in this product. Other single vegetable crops are less important.

The following yields of vegetable crops were achieved in 2006 in Bosnia and Herzegovina: carrot 9.34 t/ha, onion 6.3 t/ha, garlic 3.7 t/ha, bean 1.4 t/ha, peas 2.6 t/ha, cabbage and kale 12.8 t/ha, tomato 8.96 t/ha, green pepper 9.48 t/ha, cucumber 7, 85 t/ha. These yields resulted in the following total achieved production: carrot 18,500 tons, onion 33,000 tons, garlic 7,300 tons, bean 13,100 tons, peas 4,100 tons, cabbage and kale 83,300 tons, tomato 35,800 tons, green pepper 37,200 tons, cucumber 24,200 tons.

Figure 12: Vegetables by crop (production changes 06/05, 05/04)



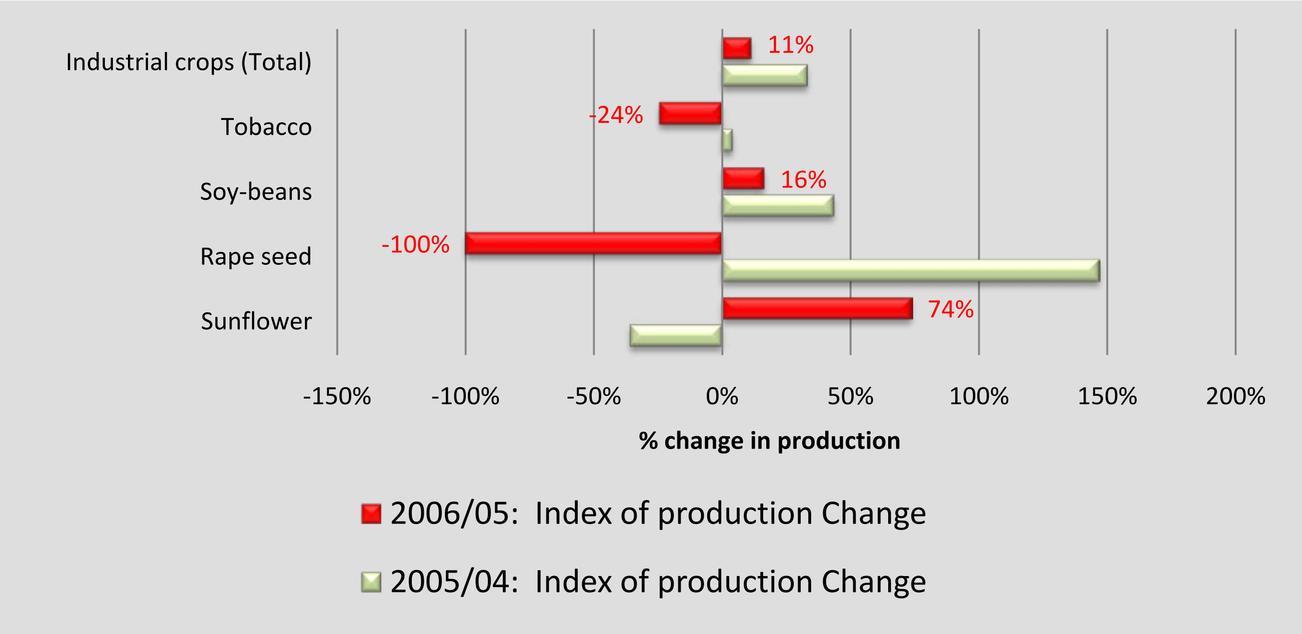
Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina, Statistical Yearbooks of Federal Office of Statistics, Statistical reviews of Statistical Institute of the Republika Srpska, Statistical office of District Brcko.*

It is worthwhile noting that within the vegetable sub-sector, which as a whole is growing, the greenhouse production is especially strong. The fact that greenhouse production is becoming more and more popular in the northern part of B&H is very encouraging having in mind fact that until recently it was almost totally concentrated in the Herzegovina region. The promotion of greenhouse production within the whole territory of B&H was supported by different international programs which have been able to ensure suitable loans and education for farmers. Currently this production generates new income for a significant part of the rural population.

The current vegetable production (except potato production) is not sufficient to satisfy domestic demand. Consequently significant amounts of the domestic demand is satisfied by imports.

Industrial crops: Industrial crops have never been a major component of crop production in Bosnia and Herzegovina. Until 2004, total land surfaces sown with industrial crops were about 7,000 ha and their share in total sown ploughed field was 1% to 1, 5%. In 2005 and 2006 the area sown with industrial crops increased reaching approximately 10,000 ha in 2006. This significant increase, in relative terms, is the result of re-activating the only industrial oil mill in Bosnia and Herzegovina “Bimal” – Brčko, which has increased interest of local farmers in oilseeds production (rapeseed and soybeans).

Figure 13: Industrial crops by crop (production changes 06/05, 05/04)



Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina, Statistical Yearbooks of Federal Office of Statistics, Statistical reviews of Statistical Institute of the Republika Srpska, Statistical office of District Brcko.*

However, domestic production of oilseed crops is very modest and cannot currently meet the demand of the oil mill. Sunflower seed production in 2006 was limited to about 300 ha. Production of rapeseed started only in 2004. In 2006, there were approximately 1,000 ha under rapeseed with produced 2,000 tons. The production of soybeans has been increasing over the last years. In 2006 the total area under soybeans was 6,500 ha producing 14,500 t. This is a considerable increase compared with previous years (3,400 ha in 2004 or 5,510 ha in 2005).

In the future it is expected to see further production increases in this area as the market demand is growing. Additionally, the governments of Brcko District and RS are supporting oil production by KM 350 and KM 200 per ha respectively. Except oilseed crops only tobacco is grown as industrial crop as there is no sugar-beet production.

Tobacco: Tobacco, which was historically an important crop for Bosnia and Herzegovina has been in decline as government direct support for the existing processing plants has been gradually reduced. It is still grown in three of the ten Federation Cantons and in some municipalities of the RS, but at very low levels. Main types (varieties) are Barley and Virginia with big leaves. Production statistics from 2006 indicate total leaf tobacco production levels of approximately 3,300 tonnes grown on approximately 2,400 ha. This is much less compared to 2002 when total production was 5,173 tons (55% more than in 2006) and total harvested area was 3,300 ha (35% more than in 2006). The future of tobacco growing in Bosnia and Herzegovina will be determined by the tobacco price on the international market and measures of agrarian policy.

Viticulture: Compared to most EU countries and neighbouring countries in the region, the B&H wine sector is relatively small, both in terms of volume and value. However, due its tradition in the region, the prevailing climatic conditions, limited possibilities for other crop production and the importance of viticulture in many rural areas remains important. Expert estimations indicate the national vineyard area to be approximately 1,000 hectares. Most of the vineyards are planted in accordance with modern viticulture standards and newly planted vineyards generally provide higher and more regular grape yields.

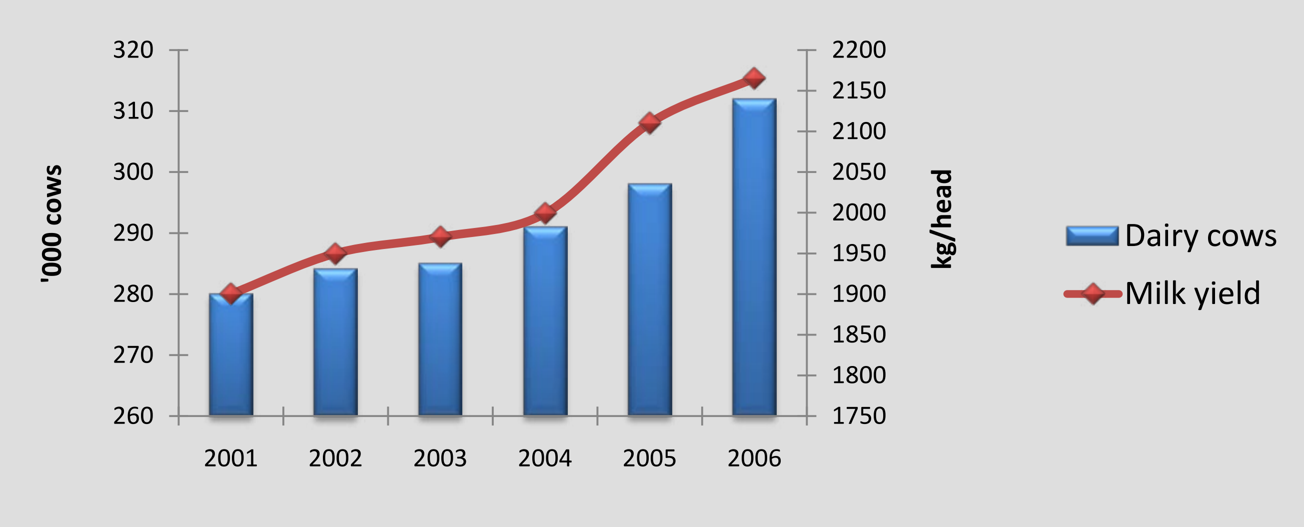
The most planted grape variety in B&H remains the Zilavka variety (for white wine). Among the varieties for red wine, the Blatina variety is traditionally the most popular grape. This has been recently challenged by the Montenegrin Vranac variety.

Large parts of Northern B&H are designated wine growing areas. Some encouraging changes happened during the last few years. In municipalities such as Laktasi, Prnjavor, Banja Luka, Gradiska, Gradacac, Zivince some vineyards were founded and thus the potential is slowly tapped.

3.3 Livestock Production

Milk sector: In 2006 the number of cows was approximately 312,000 and the milk production was approximately 662 million liters. Over the last 5 years some significant improvements in productivity can be observed. The milk yield has been increasing every year (2146 kg/head in 2006 compared to approximately 1900 kg/head in 2001). Compared to the EU average (approximately 6100 kg/head) this is still modest but in comparison to neighboring countries in the Western Balkans B&H is doing well.

Figure 14: Number of dairy cows and milk productivity in B&H (2001 – 2006)



Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina*

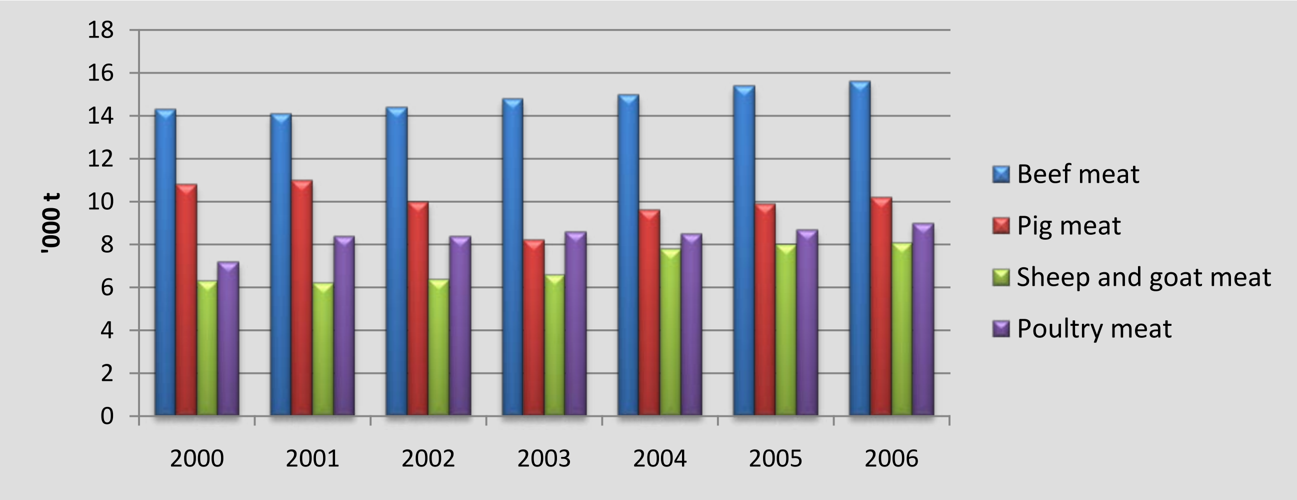
In order to further increase the productivity of dairy herds, the average herd size needs to be increased. It is estimated that, in 2006, 80% of the dairy farms in Bosnia and Herzegovina have an average of three cows or less. Furthermore an improved breeding structure of the herd and improved techniques could contribute to further increase the milk yield.

Up to 2006 the milk support payment system provided by both entities has been based on fat units and acidity levels of delivered milk. Limited emphasis has been placed on improving the hygiene and general quality of milk. However some dairies have begun to introduce milk pricing schemes based on bacterial and somatic cell counts. This has improved fresh cow milk quality in these dairies. This approach needs to be extended to a nation-wide programme over the next year. Milk production is currently recognized as the “heart” of B&H agriculture, ensuring income stability for a significant part of the rural population. Therefore a significant part of the budget dedicated to agriculture support is spent on the support of milk production. It is expected to see positive trends in further increased productivity in the near future linked to new support programmes.

Meat sector: Bosnia and Herzegovina’s meat sector has seen fairly stable production figures over the last years. The sub-sectors, however, differ in terms of their herd structure, the volume and value of production and the self-sufficiency. While the sheep and poultry sub-sectors have experienced more significant and stable progress, the bovine and pig meat sub-sectors have experienced more problems.

While the overall pig meat production decreased between 2001 and 2006, the main problem in the bovine meat sub-sector has been the widening trade deficit.

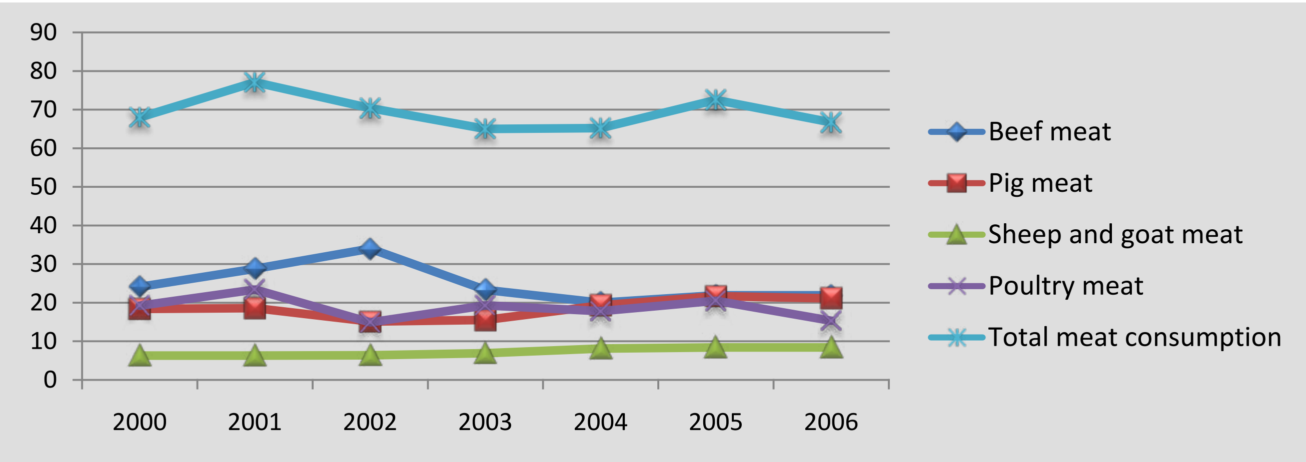
Figure 15: Meat Production (2000 – 2006)



Source: *FAOSTAT*

In 2006 approximately 15,500 t of bovine meat was produced. Furthermore approximately 10,200 t of pig meat, 9,300 t of poultry meat and a, 8,100 t of sheep and goat meat were produced. Comparing the production data with the consumption data it becomes obvious that B&H is not self-sufficient in the meat sector. Annual beef (and veal) consumption is estimated to be above 20,000 t. The same goes for pig meat consumption. Poultry meat consumption is approximately 15,000 t and only in the consumption of sheep and goat meat, B&H is almost self-sufficient.

Figure 16: Meat Consumption in '000 t (2000 – 2006)



Source: *Calculations on the basis of FAOSTAT data and data from Chamber of Foreign Trade. The USAID project LAMP estimated a higher meat consumption.*

Many producers tend to reduce their production quantity by selling or slaughtering young stock rather than fattening them. Greater co-operation is needed between producers and processors on a contractual basis in order to make the food chain more efficient and thereby more competitive in the market and to harmonise standards with those of the EU.

3.4 Agricultural Prices

Because of the relative low inflation rate due to the fixed exchange rate, producer prices for agricultural commodities have been fairly stable. Despite the fact that prices have been partially subsidized in recent years and therefore have not been fully coupled to international market prices, they are mostly in the range of the prices paid on international markets.

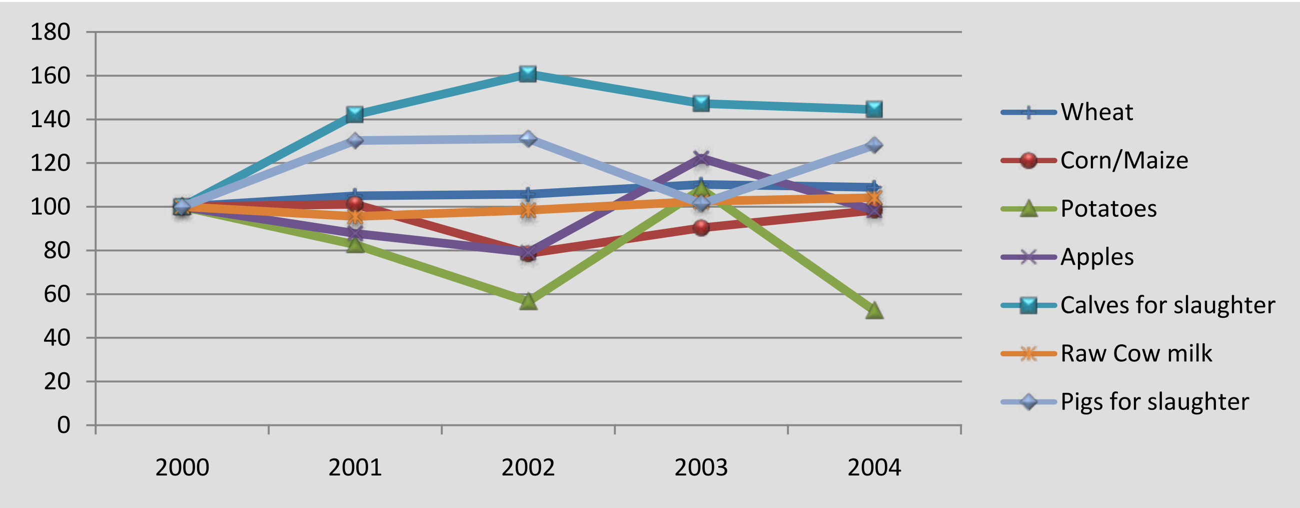
Table 4: Agricultural Prices for Key Commodities (2004 - 2006)

Crop products	2004 Price in KM / t	2006
Wheat	273	260
Maize	265	262
Barley	263	267
Tobacco	2443	2425
Potatoes	249	335
Apples	524	380
Peaches	432	655
Wine grapes	897	1170
Tomatoes	187	400
Adult cattle for slaughter	2831	n/a
Pigs for slaughter	2722	n/a
Poultry for slaughter	2946	n/a
Lambs for slaughter	4015	n/a
Raw cow's milk	501	485
Sheep and goat milk	867	n/a
Eggs for consumption	216	n/a

***Source** for 2004: Statistical Yearbook of Federation of B&H, Federation of B&H Federal office of statistics, 2005 Reviews of the Republika Srpska Institute of statistics - for 2006: estimates from FAO (source BHAS)*

With the exception of the producer price for fruits and tomatoes, which have been volatile between 2000 and 2006, the prices for other key crop products have been relatively stable.

Figure 17: Trend of Agricultural Prices (2000 - 2004)



***Source**: Statistical Yearbook of Federation of B&H, Federation of B&H Federal office of statistics, 2005 and Reviews of the Republika Srpska Institute of statistics, Part Domestic trade statistics, for period 1998-2004.*

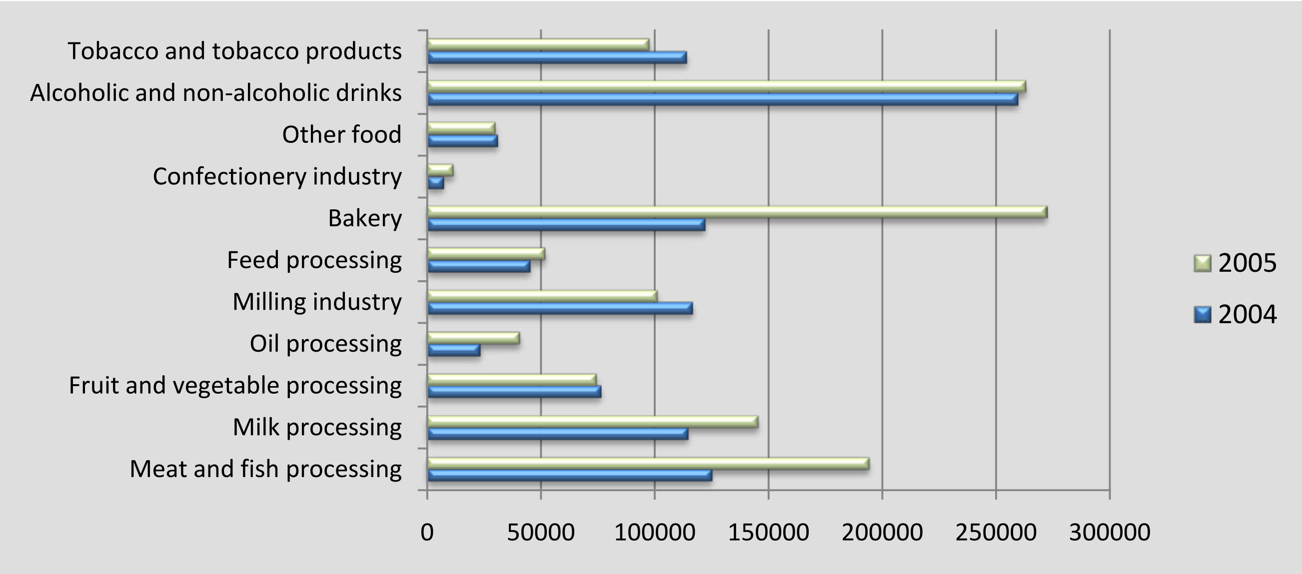
In the livestock sector prices for bovine and pig meat increased considerably between 2000 and 2004. Due to its regulation the milk price remained relatively stable.

3.5 Food Processing Sector

The years 2004 to 2006 have marked the comeback of the food industry. The value of production of the food processing industry increased in 2005 by 24% compared to 2004. This increase is the consequence of increased production in an increased number of privatised companies.

The highest increase of production value is in the bakery industry, meat and fish processing and milk processing, while the value of the production in the tobacco and tobacco products industry as well as in the milling industry decreased. The fruit and vegetable processing industry stagnated in the same period. Traditionally, beverages and alcoholic drinks have one of the highest contribution to gross output of food industry, but at a low annual growth rate. Within that industry the highest value of production is contributed by the breweries.

Figure 18: Value of production B&H food and drink industry (2004 and 2005)

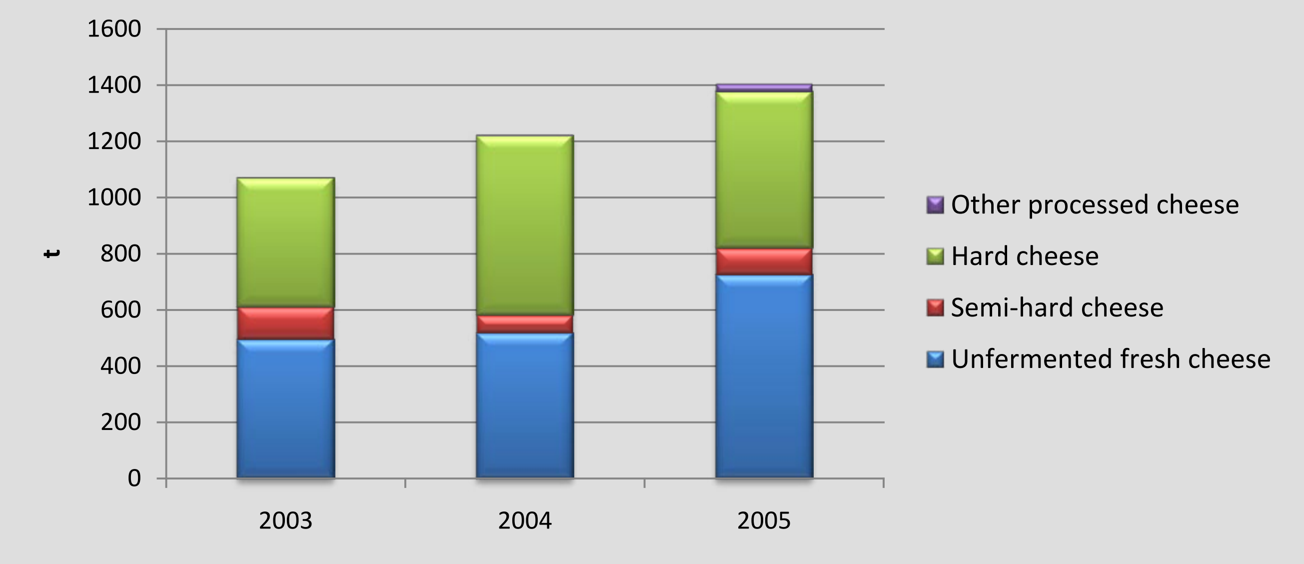


Source: *BHAS, Industrial production 2004, 2005*

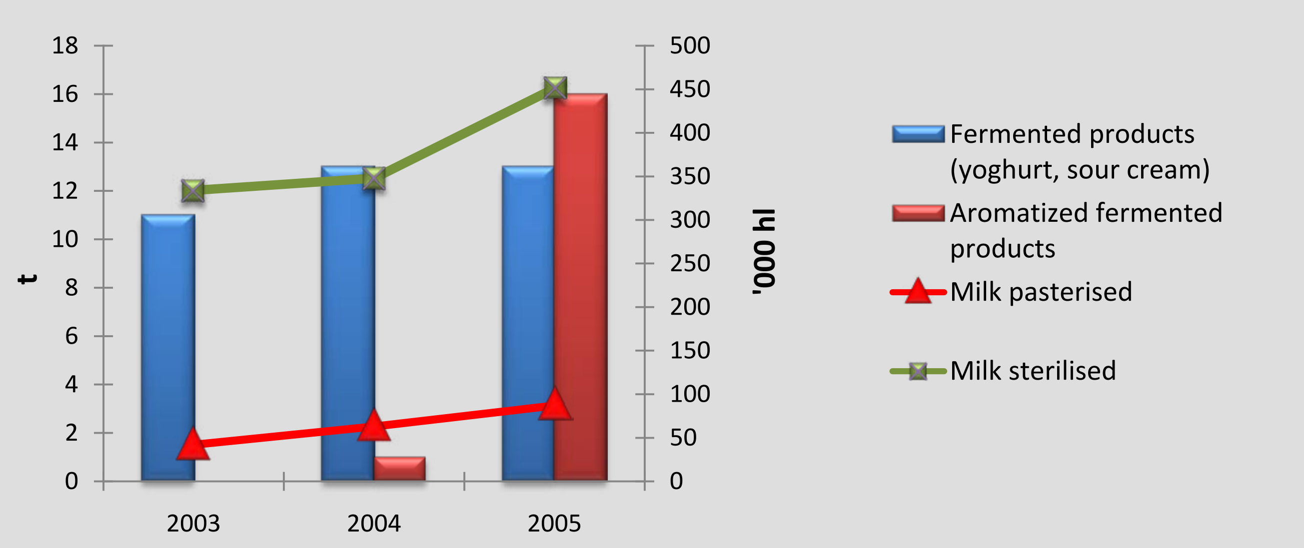
Dairies: The milk processing industry is totally privatised, but in the same time somewhat fragmented consisting of number of dairies with small processing capacity. Only ten out of 100 have a capacity over 100,000l/day. The small capacity utilization and narrow product range based on products with low added value (UHT, fresh fluid milk products etc) has been the main reasons for its low competitiveness. But there have been significant improvements. The increase of value added products production (especially cheese and aromatised yoghurt) as well as strongly improved export performance. Total sector in 2006 has recorded 27% increase of gross output in comparison with previous year.

Figure 19: Dairy Production

a) Cheese



b) Yoghurt, creams, milk

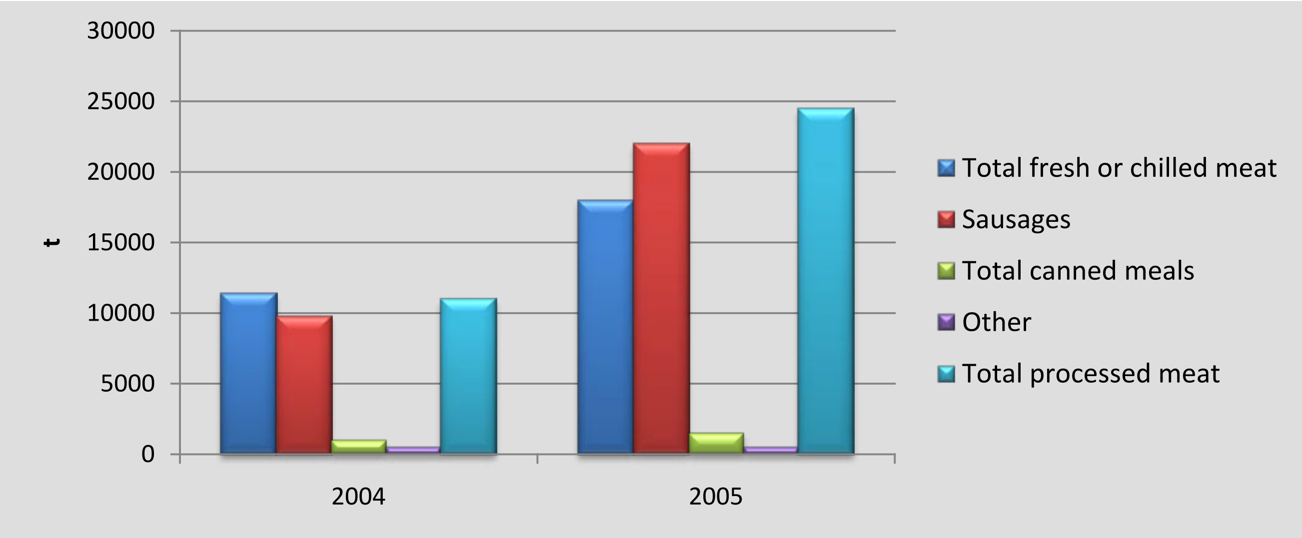


Source: *Statistical Bulletins of Agency for Statistics of Bosnia and Herzegovina*

The next challenges for the B&H milk sector are connected with development of strong and reliable supply chain, implementation of EU required safety standards and future improvement of product assortment, as well as more effective and better targeted marketing strategies.

Meat Processing Industry: According to data available for 2004 and 2005, has been recording much more significant progress has been achieved by meat processors, than meat producers as both quantities produced and the value of exports have been increasing.

Figure 20: Meat Preserving and Processing (2004/2005)



Source: *Agency for Statistics of Bosnia and Herzegovina, Thematic Bulletin Industrial Production 2004 and 2005*

Still, B&H is not self-sufficient, yet. The low level of self-sufficiency and under-utilized capacity in many slaughterhouses and meat processing plants coupled with consumers confidence in the quality of domestically produced meat could be seen as an opportunity for developing the sector as a whole. The highest increase of production value in meat industry from 2004 to 2005 was achieved in sausage production (it has more than doubled from KM 40 million to KM 87 million respectively).

Fruit and Vegetable processing Industry: In 2006 there were approximately 20 fruit and vegetable processors in B&H. In the last decade number of new private companies were established. These new companies have gained considerable shares in the domestic and foreign markets. The largest processing companies are the private company Vegafruit in the FB&H (10,000 tons of processed products per year, 100% capacity utilisation) and the state-owned company Vitaminka in the RS (capacity of about 20,000 tons, production in 2001 estimated at 4,000 tons). Fruits and vegetables are either supplied by contracted farmers in the region, grown by the processing enterprises themselves or imported (e.g. a special pepper variety from fYRoM). The main processed products are fruit juices, jam, pickled vegetables, typical local vegetable pastes (e.g. pepper-based Ajvar), ketchup but also frozen or dried vegetables.

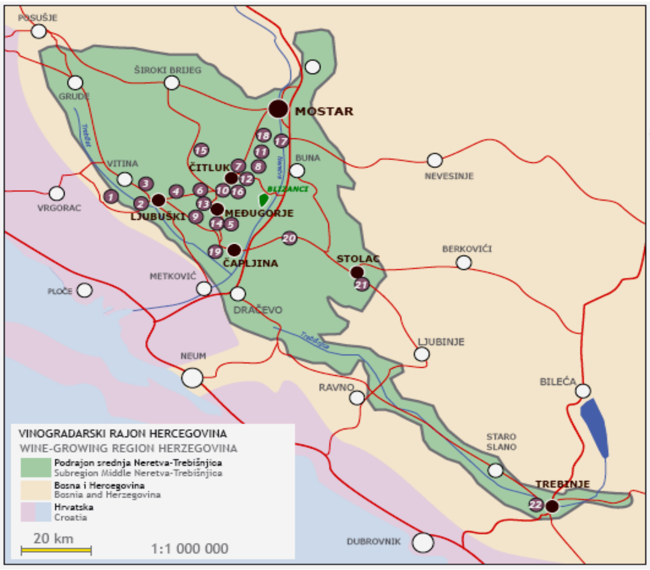
The trade deficit in the fruit and vegetable processing industry decreased by some 30% in 2006. This was caused by an increase of exports, but also by the fact that B&H production of raw material for food processing is improving. Consequently this trend is very encouraging.

Next priority steps for the sector (production and processing) are connected with the improvement of compliance with food quality and safety standards, improvement of operational efficiency and strengthening of horizontal and vertical links within the sector (between farmers and between farmers and food processing).

Vineyards: Estimates from current wine producers indicate that the total production in 2006 in Herzegovina was around 100,000 hectolitres. This does not include small scale wine production in traditional family cellars, which may well account for another 30,000 hectolitres. The wine sector is currently highly fragmented. The industry is clustered around the Herzegovina region.

Most of Herzegovina wineries continue with their practice of producing top quality Zilavka and Blatina wines. But it is becoming more and more difficult to find enough Blatina grapes to sustain current product levels.

Map 2: Wine-growing region of Herzegovina



Preparations for "The Wine Route of Herzegovina" have been almost completed in 2006 and it is planned to launch the route in 2007. Due to the fact that Herzegovina is within B&H an important tourist region, the Wine Route project is a new opportunity for wine producers, especially for those who are running small scale wineries. The Wine Route includes 22 wineries and cellars in Mostar, Citluk, Stolac, Capljina, Ljubuski, and Trebinje, ranging from small family-operated producers of eco-wine to large industrial producers. Wine growers and wine producers gathered in the route have agreed on launching a production certificate for branding Herzegovina wines.

The draft of the B&H wine law was prepared in 2006, but will be further elaborated in 2007. As next steps it is foreseen to establish a vineyard cadastre, a register of wine producers, to revise the current B&H appellation system and to create a state viticulture and wine agency.

Food Consumption: Food consumption has changed in the last years as consumers have become more demanding in their consumption patterns. In spite of increased production the domestic supply is still unable to satisfy the demand, meaning that the internal market continues to present an enormous opportunity in terms of local production and procurement.

The average consumption of cereals in Bosnia and Herzegovina is estimated at 122 kg/person (USAID, 1999) or more, and is very high by comparison with other countries. The total consumption of cereals amounts to 500,000-545,000 t. The national consumption of milk is estimated at 300-400 million litres per year or a minimum of 100 litres/person. People in Bosnia and Herzegovina show enormous interest in septic packaging of UHT milk, which increased the consumption of milk generally. There is also an increased consumption of fruit yogurts, cream, and fresh cheese.

In the late 1990's meat consumption decreased and was estimated to be at 70 kg/ head in 2000. Meat consumption structure changed also and resulted in a reduced demand of expensive baby beef and lamb, whereas the consumption of a relatively cheap chicken meat has increased by approximately 50%. Approximately 380 million eggs are consumed per year.

By improving the purchasing power, raising awareness of consumers, both combined with availability of fresh fruit and vegetable, the demands can also be further increased. The same applies for processed fruits and vegetables (such as fruit juices and canned or frozen vegetables) and (frozen) fish. Consumption of non-alcoholic beverages, mineral water, sweets and cocktail nibbles and party snacks has increased in the last five years due to better supply (mostly imported) and intensive marketing actions mostly. Wine, brandy and beer consumption seem to be relatively stable.

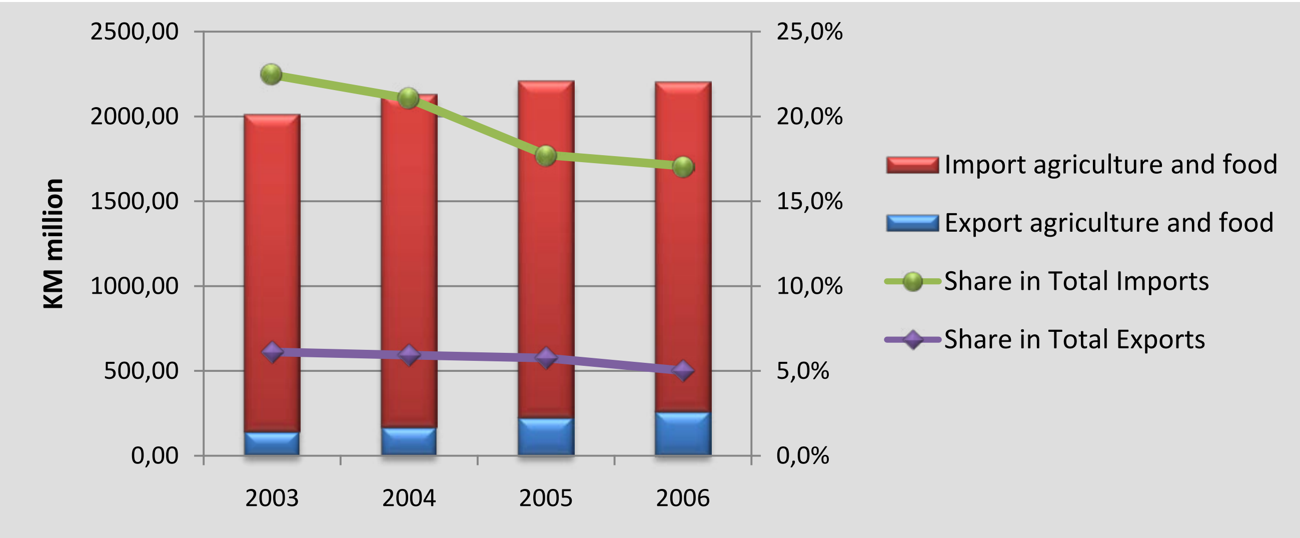
4 AGRICULTURAL TRADE AND TRADE POLICY

4.1 Agri-food Trade

B&H has experienced significant growth in foreign trade between 2002 and 2006. Agricultural trade also increased over the same period although with lower growth rates than other sectors of the economy.

The agro-food sector's share in total foreign trade was approximately 13% in 2006. Agro-food imports amounted to some KM 1,945 million, which equalled a share of 17.1 % of total Bosnian imports. Agro-food exports amounted to some KM 259 million, which equalled a share of 5 % of total Bosnian exports. Thus the 2006 figures of agricultural foreign trade sustained a trend: Agricultural imports have increased between 2002 and 2006 only marginally whereas the agri-food exports increased by some 45% over the same period.

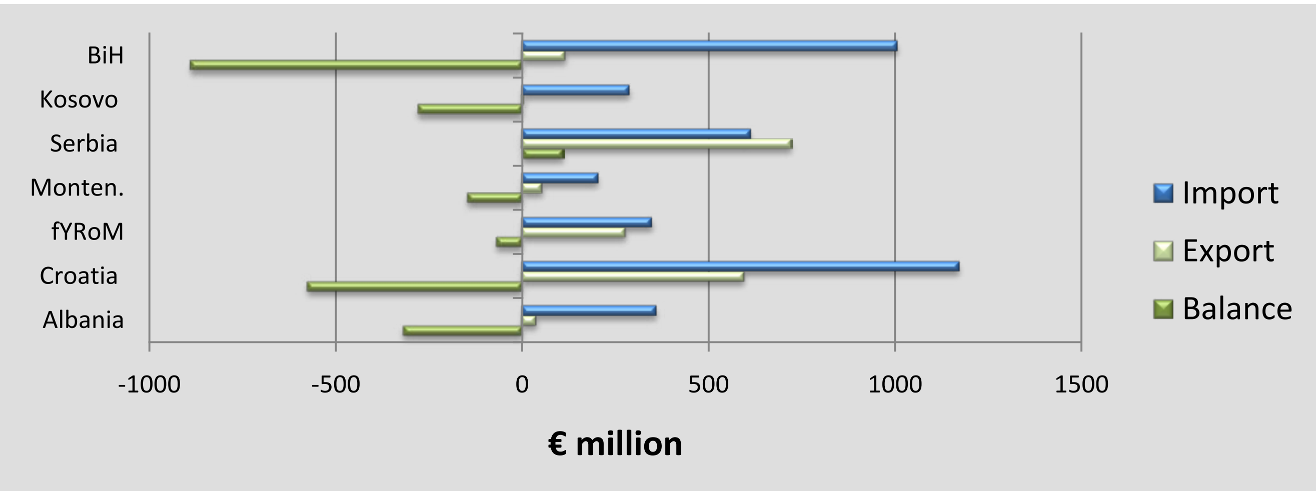
Figure 21: Agricultural Trade in Bosnia from 2002 to 2006



Source: *Central Bank of B&H*

This trend resulted in a decreasing share of agriculture in total imports (down from 22.5% in 2002) and an almost stable share of agriculture in total exports (down from 6% in 2002).

Figure 22: Comparison with Neighbouring Countries: Agricultural Trade by Country (2005)



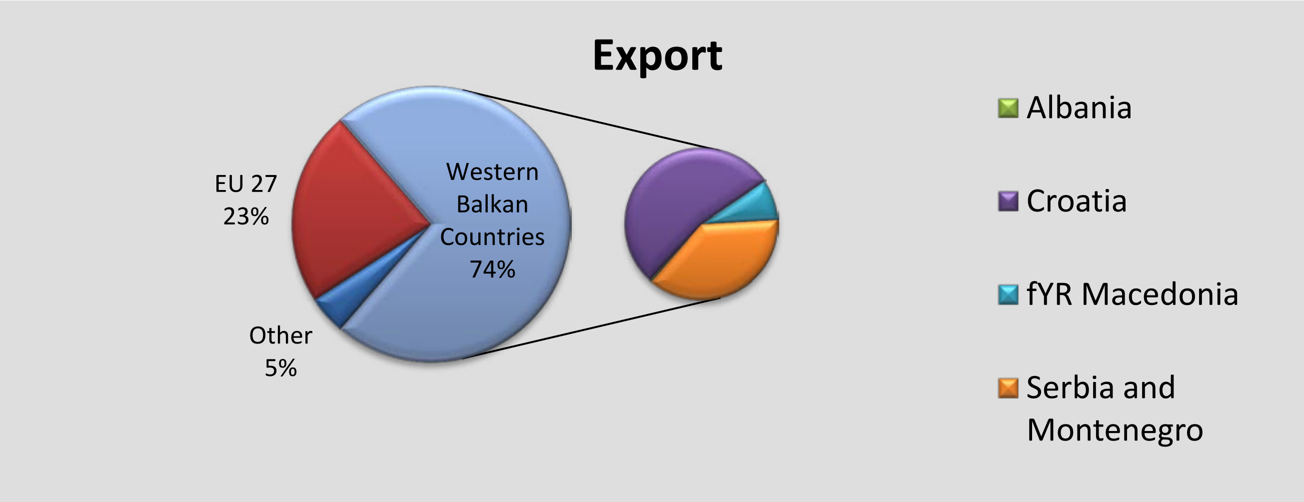
Source: *National Statistical Offices of the Western Balkans (for B&H the Agency for Statistics of Bosnia and Herzegovina)*

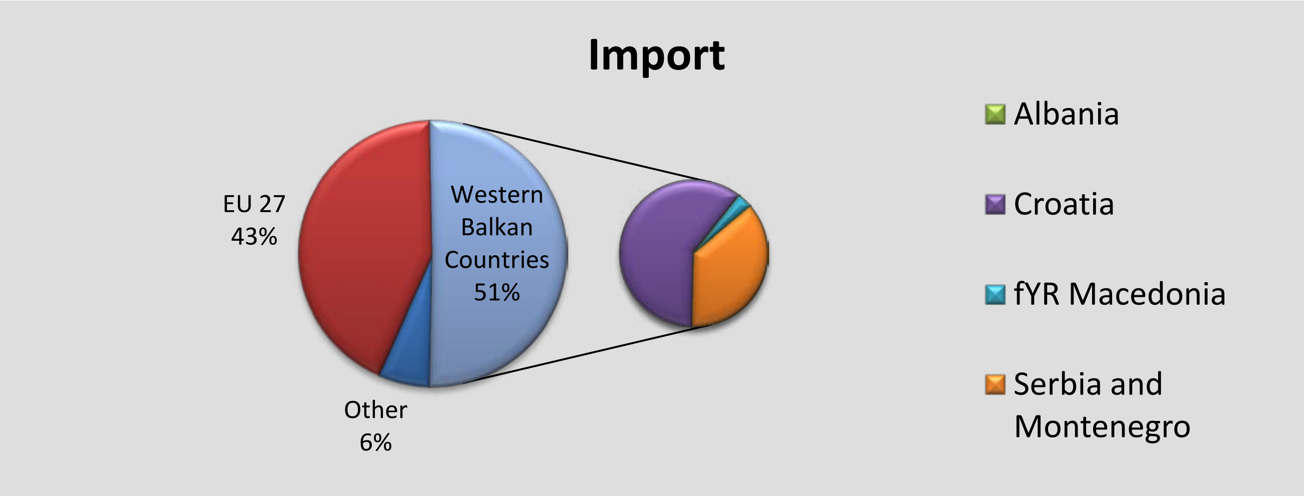
B&H has a persistent merchandise overall trade deficit (in 2006 at approximately 40% of total GDP). The agricultural and food sector (including food & beverage production) has accounted over the last three years for the most significant share of all sectors of this trade deficit, with over 25% (some KM 1,700 million – or € 870 million - in 2006). Over the last 5 years agricultural exports represented approximately a mere 1/8 of the agricultural imports. Farmers and agro-processors have the potential to supply the country with many of the products, which are currently imported, but at present cannot compete with imported products. Local demand preferences have been evolving towards higher quality, more diverse and safer products, which to-date are largely perceived as being of foreign origin.

Whereas the overall value of agri-food trade in the last 5 years has changed only moderately general patterns of trade have been improving slightly over the same period. The negative trend of current account deficit growth slowed down from 2002 to 2004 and came to a halt in the last two years (with 2005 being the first year in which the trade deficit was reduced in absolute terms; 2006 sustained this trend). The main reason the trade deficit has been falling in relative terms is that exports to European Union countries have expanded and so the trade deficit with the EU countries has been significantly reduced. Liberalizing trade with the EU has clearly yielded positive results and is enabling further expansion of exports from B&H. The Ministry of Foreign Trade and Economic Relations (MoFTER) is planning to further support the positive trend in agri-food trade with the EU by enhancing food quality standards and improving the institutional framework (e.g. the recently established independent Food Safety Agency, the State Veterinary Office as well as the Plant Health Protection Administration) for allowing Bosnian products to enter the EU market.

In 2006 same as over the last 10 years B&H's most significant trading partners have been Croatia, Slovenia, Germany, Serbia and Montenegro, and Italy. The ranking of these five countries has changed over the period, with the exception of Croatia, which has consistently been B&H's most important trading partner. Grouped by regions, the non EU member states in the region, the countries referred to as "Western Balkan Countries" in the following figure, are by far the most important trading partners of B&H followed by the EU 27.

Figure 23: B&H's most important trading Partners (2005)



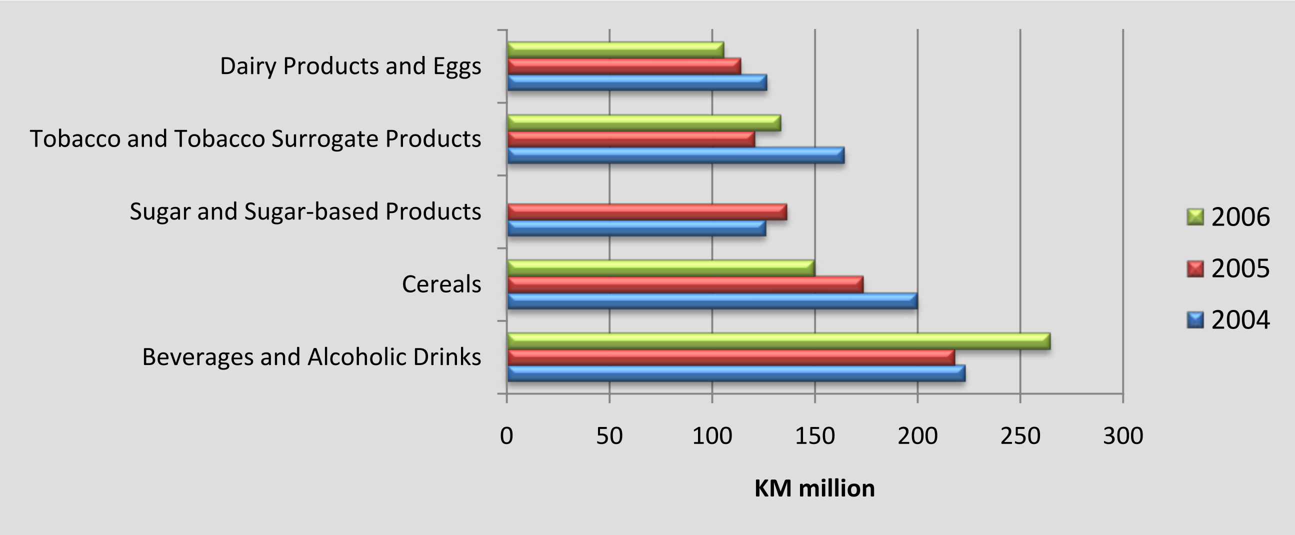


Source: *Chamber of Commerce of Bosnia and Herzegovina*

In 2005 74% of all Bosnian agri-food exports went to the neighbouring non-EU member states (primarily to Croatia and – to a less extent – to Serbia-Montenegro) and 23% to the (what is today the) EU 27. On the other hand 43% of all agri-food imports came in 2005 from the EU 27 and 51% came from neighbouring non-EU member states (again Croatia is the most important single trading partner).

An analysis of agri-food trade shows that beverages and alcoholic drinks have the largest share of imports and – other than most of the other important import commodities –the total value of imported beverages and alcoholic drinks has increased between 2004 and 2006 reaching approximately KM 260 million.

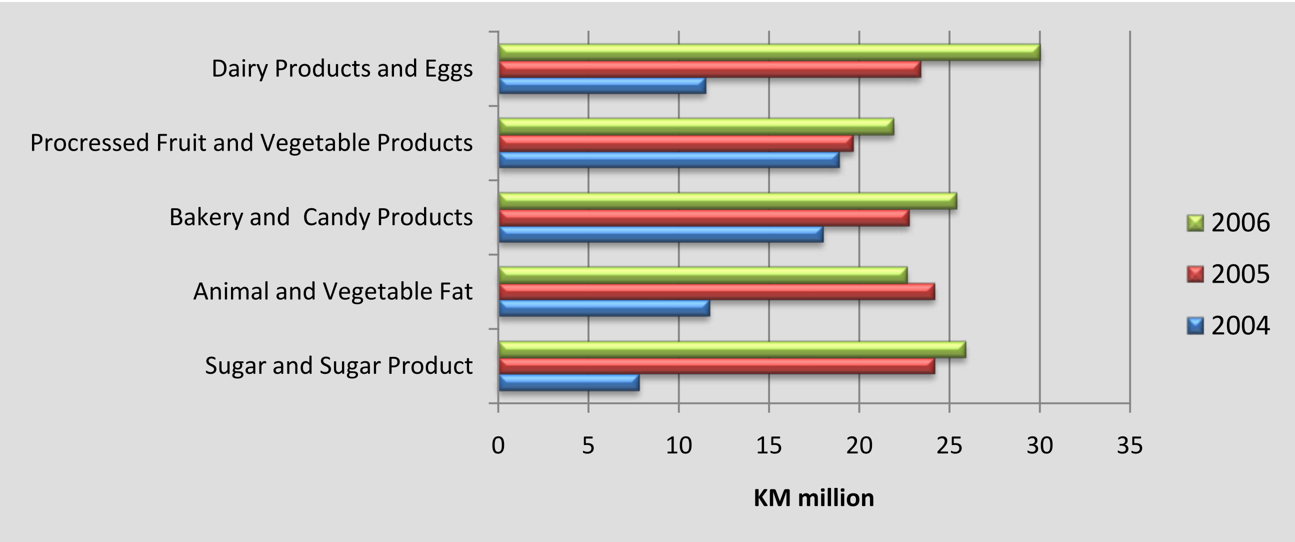
Figure 24: B&H's most important import commodities (2004-2006)



Source: *Central Bank of B&H*

As regards the leading Bosnian agri-food exports, a very similar pattern can be observed between the main export commodities: They have all seen a steep increase in exported value between 2004 and 2006. The top five commodities account for a share of approximately 50% of total Bosnian agro-food exports.

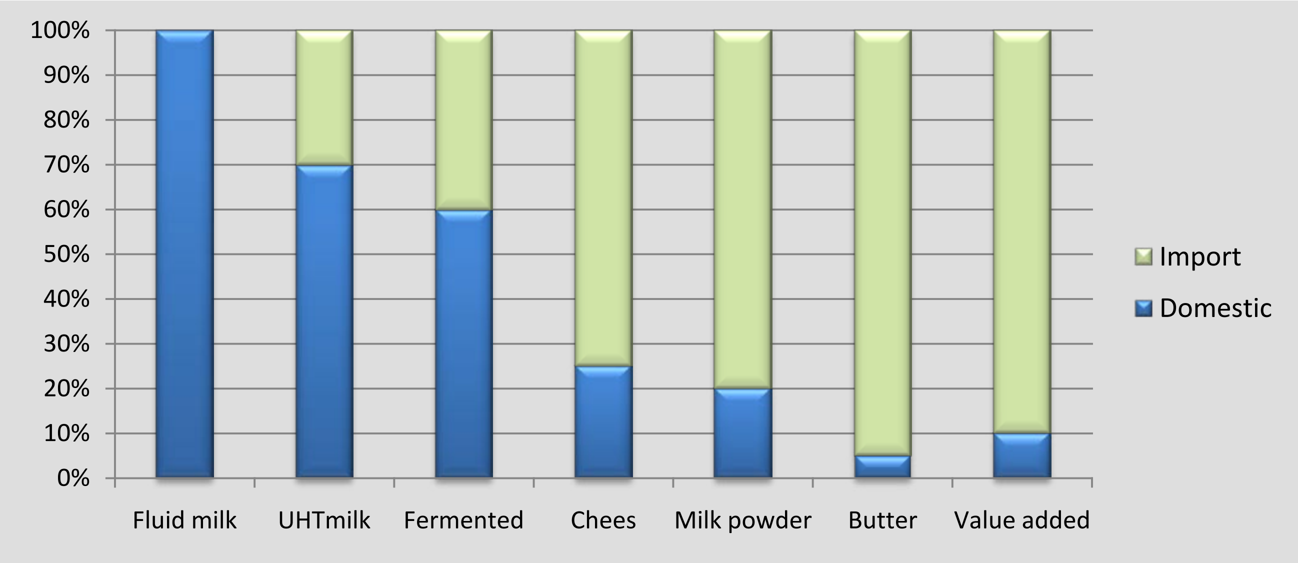
Figure 25: B&H's most important export commodities (2004-2006)



Source: *Central Bank of B&H*

Dairy Sector: The most important export commodity of B&H, which earned in 2006 approximately KM 30 million is the dairy sector. At the same time the dairy sector is listed in the top 5 import commodities of the country. An analysis of the structure of the domestic and imported dairy products reveals that in 2005 the majority of the processed dairy products were imported whereas the primary production was covered domestically. The B&H dairy industry has a narrow product range based on products with low added value (UHT, fresh fluid milk products etc). The dairy products with high added value are mostly imported.

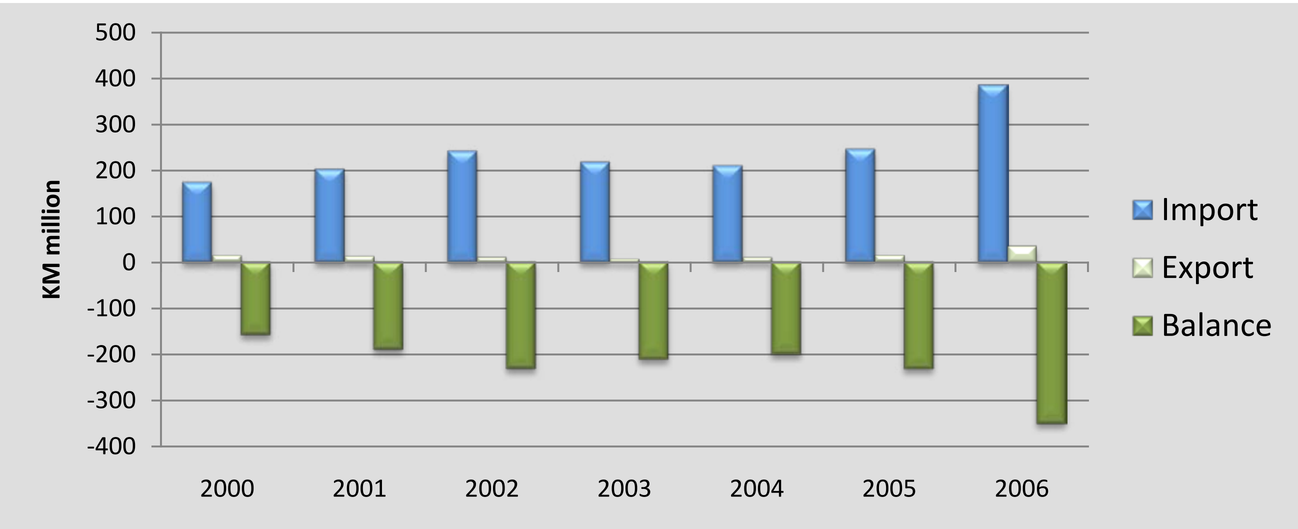
Figure 26: Structure of domestic and imported milk products (2005)



Source: *Central Bank of B&H*

Meat: The total value of imported prepared meat products in 2006 was KM 180 million, the value of imported edible meat in 2006 accounted for approximately KM 120 million and the total value of imported live animals in 2006 was KM 80 million. Thus the meat sector in 2006 accounted for a total of KM 380 million of imported products or almost 20% of the total value of imported agricultural food commodities. This was a steep increase compared to the already high imports of 2005. Exported prepared and edible meat products and live animals (almost non-existent) earned some KM 35 million in 2006.

Figure 27: Meat Sector Imports and Exports (2000 – 2006)

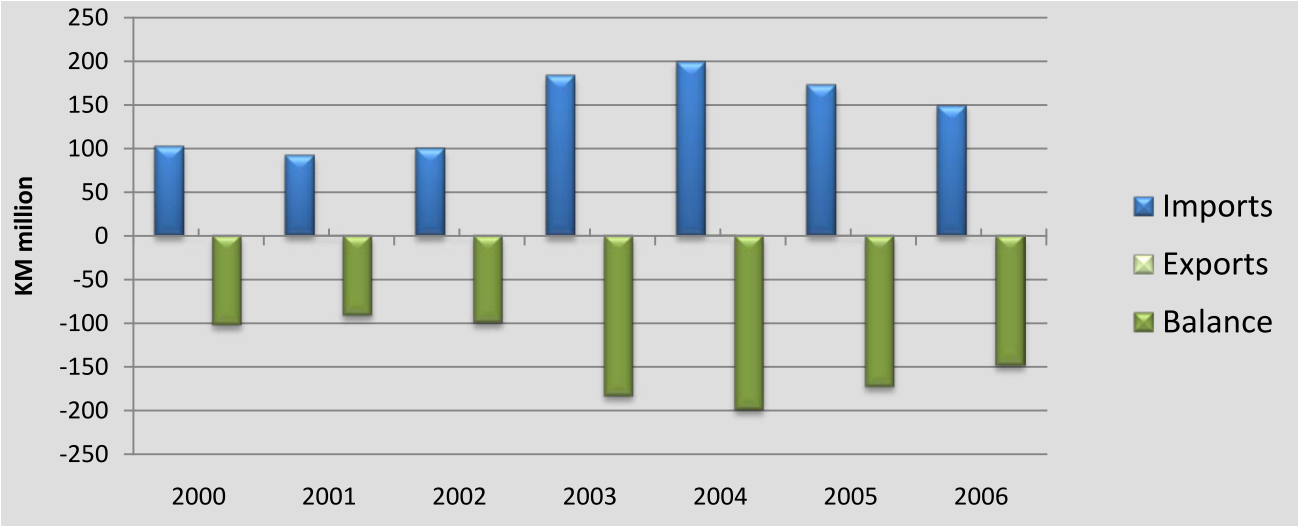


Source: *Chamber of Foreign Trade of Bosnia and Herzegovina*

Overall, Bosnia and Herzegovina relies more on imports now than in the past for a significant part of meat consumption. Neighbouring countries with whom B&H has free trade agreements are the main trading partners (Croatia, Serbia, and Slovenia). The low level of self-sufficiency and under-utilized capacity in many slaughterhouses and meat processing plants coupled with consumers confidence in the quality of domestically produced meat could be seen as an opportunity for developing the sector as a whole.

Cereals: The total value of cereals' imports in 2006 was KM 150 million, which was 7.8% of the total import of the agricultural food commodities. It is significantly less than in previous two years (cereals' imports in 2004 was KM 200 million and in 2005 was KM 173 million) but significantly more than in period 2000-2002 when cereals' imports was around KM 100 million.

Figure 28: Cereals imports and exports (2000-2006)



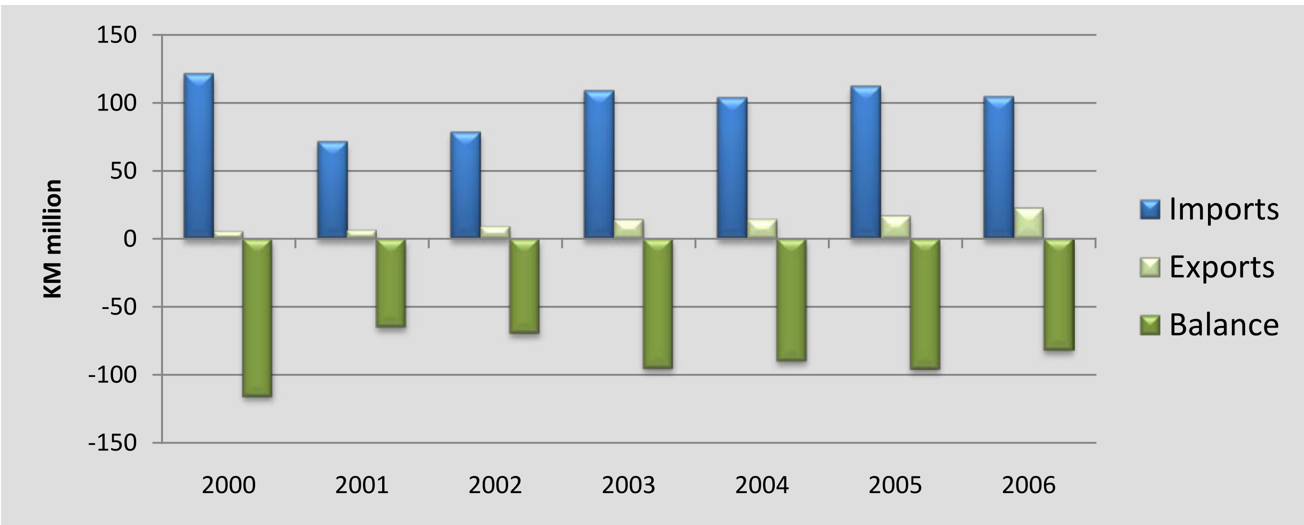
Source: *Chamber of Commerce B&H*

In 2006, the main exporter of cereals to Bosnia and Herzegovina was Hungary (45%). Serbia takes the second place (39%) as the result of the Free Trade Agreement between B&H and Serbia. The leading imported crop was wheat. As Bosnia and Herzegovina's estimated total annual demand for wheat is 600,000 tones, insufficient domestic production is supplemented by substantial imports, which vary, depending on the year, from 350,000 to 500,000 tones. This is partly result of the fact that significant quantities of domestic production (on the average 1/3) are used on-farm.

Exports of cereals are very modest and earned KM 780,000 in 2006. In the future Bosnia and Herzegovina is likely to continue to import cereals, as especially FB&H does not have very favourable conditions for producing cereals.

Fruits: The total value of fruits' imports in 2006 was KM 105 million, which was 5.4% of the total import of the agricultural food commodities. The value of imported fruits has remained fairly stable over the last years, with 2006 seeing a decrease compared to 2005. The same goes for exported fruits, which earned some KM 20 million in 2006, slightly more than in 2005.

Figure 29: Fruits imports and exports (2000-2006)

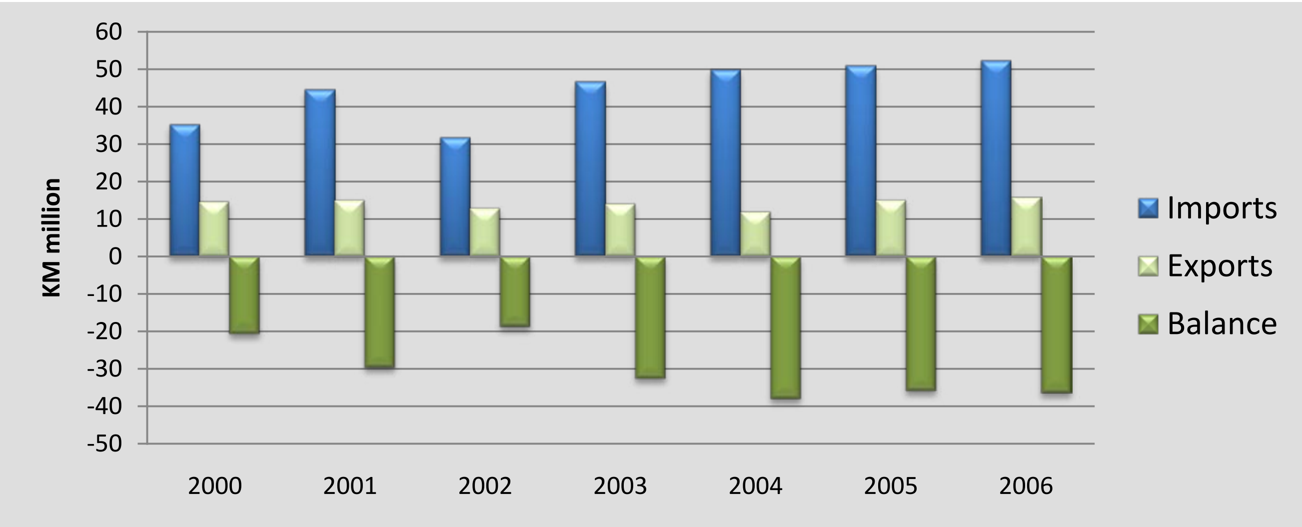


Source: *Chamber of Commerce B&H*

There was still a significant deficit in foreign trade of fruits in 2006. But on the positive side it can be stated that in 2006 the trade deficit was decreasing. The main reason for the large deficit is the fruit processing industry, which can satisfy their demand for raw fruits only by importing them.

Vegetables: The total value of vegetables' imports in 2006 was KM 53 million, which was 2.7% of the total import of the agricultural food commodities. The value of imported vegetables has steadily increased over the last years, with 2006 confirming this trend. Exported vegetables earned some KM 16 million in 2006. Over the last years this export value has remained fairly stable.

Figure 30: Edible vegetables imports and exports (2000-2006)

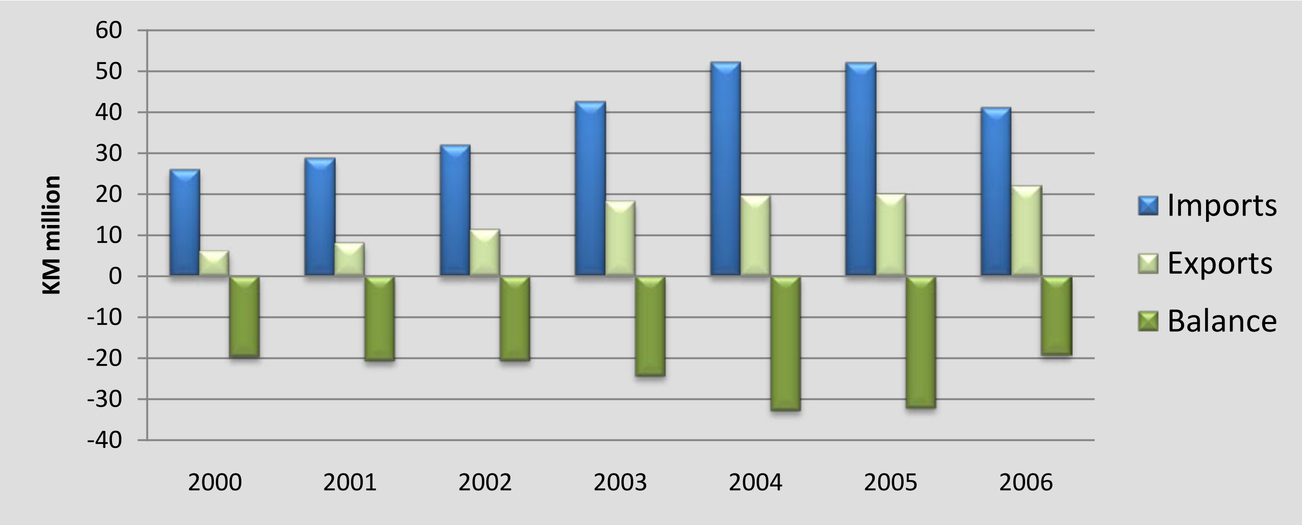


Source: *Chamber of Commerce B&H*

Processed fruits and vegetables: The total value of imported processed fruits and vegetables in 2006 was KM 41 million, which was 2.1% of the total import of the agricultural food commodities. Exported processed fruits and vegetables earned some KM 21 million in 2006. Over the last years this export value has slowly but steadily increased.

The trade deficit decreased by some 30% in 2006. This is caused by an increase of exports, but also by the fact that B&H production of raw material for food processing is improving.

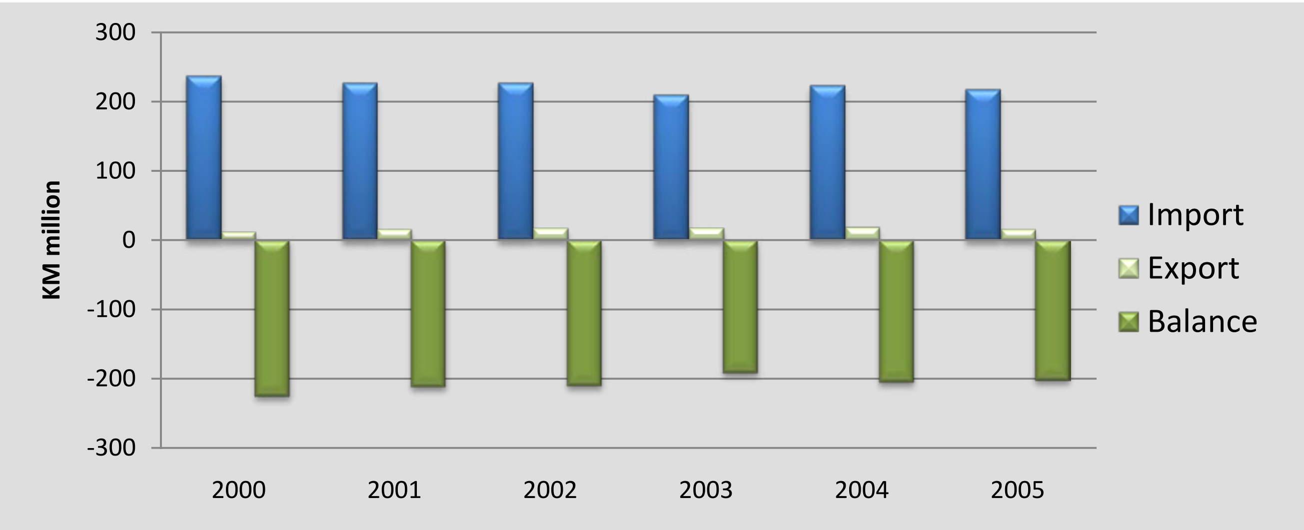
Figure 31: Processed fruits and vegetables imports and exports (2000-2006)



Source: *Chamber of Commerce B&H*

Beverages and Alcoholic Drinks: The total value of imported beverages and alcoholic drinks in 2006 was KM 260 million, which was 13.5% of the total import of the agricultural food commodities. Exported beverages and alcoholic drinks earned some KM 10 million in 2006.

Figure 32: Beverages and Alcoholic Drinks (2000-2006)

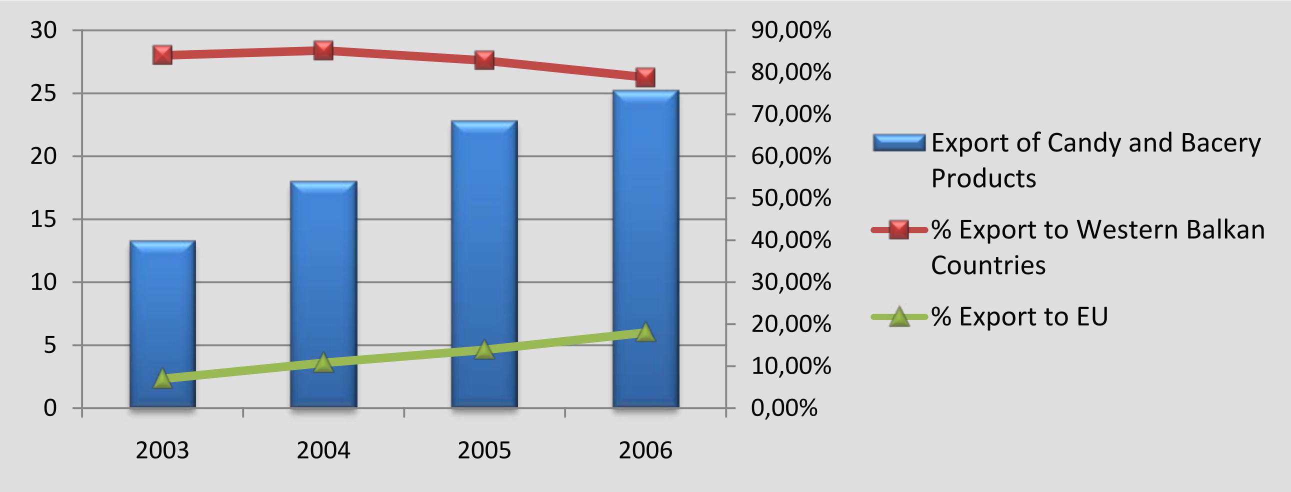


Source: *Chamber of Commerce B&H*

No significant changes in the foreign trade of beverages and alcoholic drinks can be observed over the last 5 years: The sub-sector is the most important import commodity, the exports are insignificant and the resulting trade deficit is very substantial.

Bakery and Candy Products: A commodity, which has become in the last two years a driving force of Bosnian agri-food exports are the bakery and candy products that earned in 2006 KM 25 million (up from KM 13 million in 2003).

Figure 33: Export of Bakery and Candy Products



Source: *Central Bank of B&H*

Although the majority of the exports within this sub-sector is still going to the neighbouring non-EU member states (some 80% in 2006), the share of exports to the EU 27 within the overall export is constantly increasing (up to almost 20% from a mere 7% in 2003). With increased food quality standards and a better marketing this trend could be further strengthened.

4.2 Trade Agreements

In the last period MoFTER has started to establish a coherent and comprehensive trade policy and to gradually revise existing legislation to ensure consistency with international agreements. As such B&H has become member of CEFTA 2006, the Central European Free Trade Area (the B&H Parliament still needs to ratify the agreement, which is expected to happen in the second half of 2007). CEFTA 2006 is a free trade zone of some 60 million people bringing together - besides B&H - the most important trade partners of B&H in the region, i.e. Croatia, Serbia and FYRoM but also Albania, Montenegro and Moldova. All CEFTA 2006 members apply simplified and harmonized trade conditions, scrap tariffs and liberalize trade. Doing so increased overall B&H foreign trade with the CEFTA countries and slightly narrowed the B&H trade deficit with them. It also helps making domestic agro-food producers more competitive.

In term of trade liberalization and increased competitiveness CEFTA 2006 is a forerunner for the membership of the World Trade Organisation (WTO) and the signing of a Stabilisation and Association Agreement (SAA) with the EU. Both negotiations are on-going and essentially refer to trade liberalisation, reduction or elimination of export subsidies as well as tariffs or other trade barriers protecting the domestic market. In 2007 and 2008 the trade and domestic agricultural policy, which due to recent adjustments in large parts already complies with WTO requirements will be further harmonized with the WTO and SAA provisions.

At the same time B&H reduced its import duties and increased the access for EU goods to the domestic market. This Interim Agreement as well as EU enlargement has increased the importance of the EU as a trading partner, as some of the New Member States (e.g. Slovenia) as well as some old Member States (e.g. Italy and Germany) have been and still are important trading partners.

A series of bilateral free trade agreements (FTA) have been ratified in the last five years with B&H's most significant trading partners. These include the following: Croatia (ratified – Official Gazette of B&H 11/04), the Federal Government of the SR of Yugoslavia (ratified - Official Gazette of B&H, 4/02, now this governs the trade with Serbia) and with fYRoM (ratified - Official Gazette of B&H, 9/03), Turkey (ratified - Official Gazette of B&H, 6/03), Moldova (ratified - Official Gazette of B&H, 5/04) and Albania (ratified - Official Gazette of B&H, 8/04) The FTA have improved the access to these export markets but also fuelled the imports from these countries as the trade balance shows.

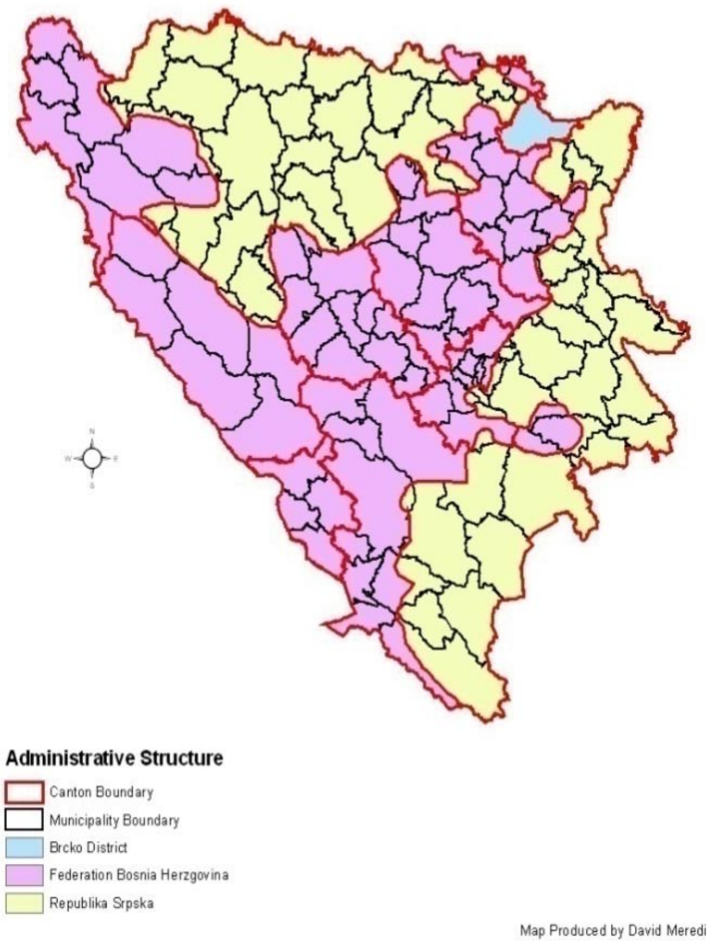
5 AGRICUTURE AND FOOD POLICY

5.1 Institutional framework and policy objectives

B&H is administratively divided into two Entities, Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FB&H - which is further divided into ten Cantons). At the local level there are currently 143 Municipalities (80 in FB&H, 63 in the RS). In addition, a separate Administrative region has been established in the District of Brcko in the North-east of the country with its own administration and budget. There is currently no dedicated state level Ministry of Agriculture in B&H. Currently the B&H Ministry of Foreign Trade and Economic Relations (MoFTER) is responsible for coordination of the agriculture sector at state level. MoFTER has established a Sector for Agriculture, Food, Forestry and Rural Development (SAFFRD). SAFFRD has been preparing plans for expansion of its staff and overall capacity for coordination of the sector in 2006.

The main sector governance structures are currently the three key administrations at Entity level, namely: (i) The Ministry of Agriculture, Forestry & Water Management (MAFWM) of RS; (ii) The Ministry of Agriculture, Water Management & Forestry (MAWMF) of FB&H; and (iii) The Department of Agriculture, Forestry & Water Management of District Brcko.

Map 3: B&H Administrative Structure



Source: *EU SESMARD Analysis (2006)*

In the FB&H the system is further decentralised, with both the FB&H MAWMF and the Cantons being responsible for the management and use of natural resources. All 10 Cantons in the FB&H have also established administrations in charge of agriculture, veterinary, forestry and water management, with the FB&H MAWMF providing overall coordination of policies within the Federation.

In 2006 a draft B&H Law on Agriculture, Food and Rural Development was prepared under the leadership of MoFTER with technical support from the EU (the SESMARD project). It was prepared with the direct involvement of representatives from all key sector state level institutions plus representatives from the two Entities and Brcko District. The adoption of the law is anticipated in 2007. If approved, the law is intended to provide a clear framework for sector governance and development of sector strategies, policies and specific implementing measures to improve the coordinated development of the agriculture, food and rural development sectors throughout the country.

Long-term objectives of B&H agricultural policy are determined by the Entity-level sector strategies, the B&H Medium-Term Development Strategy (MTDS, from 1999) and the draft State Law on Agriculture, Food and Rural Development. This broadly defines the following objectives for the sector:

- Promote the development of a diverse, sustainable, competitive and dynamic agriculture, forestry and food sector
- Ensure harmonization and integration of the sector within the EU and world market place
- Encourage the diversification of the economic activities, improve employment and income opportunities and the quality of life in rural areas
- Ensure access to and availability of high quality, affordable and safe food
- Ensure the rational use and protection of natural resources and biodiversity
- Establish institutional structures and capacities at State and Entity level to manage pre-accession harmonization preparations.

However, there is currently no overall B&H sector strategy. In 2006, both the Entities drafted updated Sector Strategies. The strategies are based on similar objectives but differ in emphasis due to the existing institutional and structural differences. The RS sector strategy was subsequently adopted by the RS Parliament in July 2006. The FB&H strategy is expected to be adopted by its Parliament in 2007. In addition, the RS adopted a new Agricultural Law in 2006 that defines the Entity policy objectives and framework of policy measures. The FB&H plans to adopt its Agricultural Law in 2007.

MoFTER has initiated plans for the development of an overall sector strategic plan and harmonised sector operational programme(s) in 2006. It is intended to complete this process in 2007, with the support and direct participation of the Entities, Brcko District and the EU (SESMARD project).

5.2 Sector policy development in 2006

The Entities, Brcko District and the FB&H Cantons are currently responsible for development, management and financing of all agricultural policies in B&H, with state level support being provided only in the areas of sector trade, veterinary and phytosanitary policy currently. Current sector support is somewhat fragmented and inconsistent and requires improved coordination and harmonisation.

The main support payments in 2006 were again targeted at milk and tobacco production, based on quantities delivered to certain processing plants. Additionally, some support was provided to fruit and vegetable production. There was also some limited intervention buying, at guaranteed minimum prices, for milk and wheat.

The need to gradually harmonise existing agricultural policies and support payments between entities and with the EU has become increasingly important in 2006. Tentative steps have been taken in 2006 to plan for new types of support, which may be introduced in 2007, particularly for de-coupled capital investment payments for farms and food processors and for other types of rural development support, likely to be introduced as pilot measures initially. These plans have been linked to the introduction of a harmonised farm and client register that is also now planned to be established in 2007.

A number of new sector laws were enacted in 2006, at State and Entity level, and in Brcko District. The main laws introduced in 2006 are summarised below:

Table 5: Laws enacted in 2006

Title of the Laws Enacted	Official Gazette No.
I. State Laws in B&H	B&H Official Gazette
Consumers Protection Law	25/06
Customs Policy Law (update / modification of existing law)	51/06
General Law on Cooperatives (update / modification of existing law)	55/06
II. Federation of B&H	Official Gazette of FB&H
Law on Hunting	4/6
III. Republika Srpska	Official Gazette of RS
Law on Inspectorate	113/05
Law on Livestock (Cattle-Breeding)	34/06
Law on Water	50/06
Law on Agriculture	70/06
Law on Forestry (update / modification of existing law)	91/06
Law on Agricultural Land	93/06
IV. Brcko District	BD Official Gazette
Law on Financial Support to the Agricultural Production	11/6
Law on Agricultural Land	20/06
Law on Hunting	23/06
Law on Measures for Improvement of Cattle Raising	23/06
Law on Forestry	23/06
Law on Water	23/06

5.3 Food safety policies

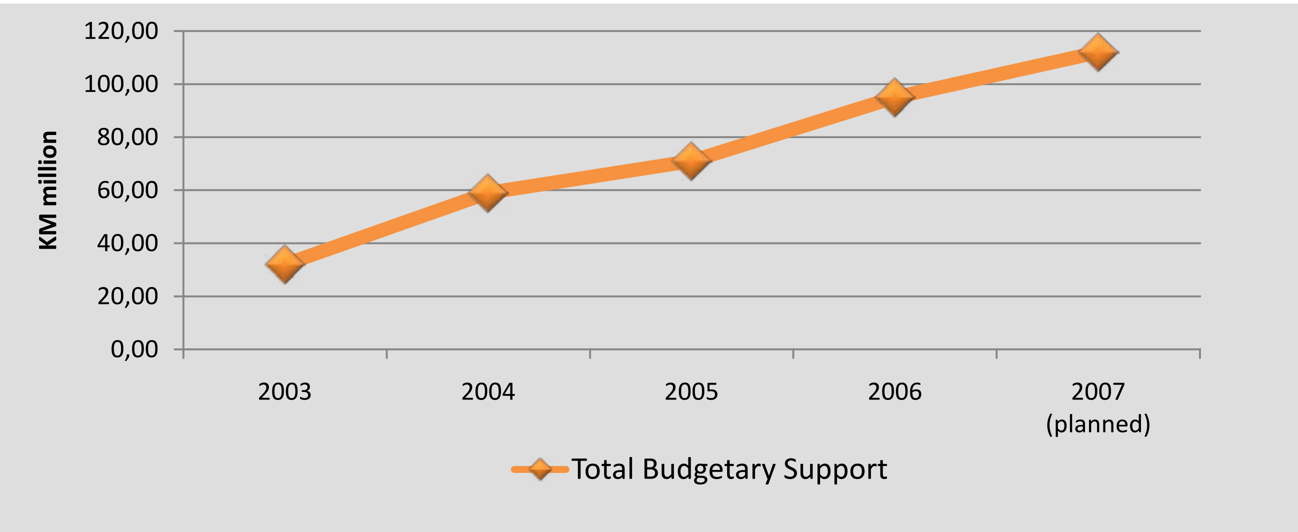
The B&H Law on Food, which was adopted in 2004, forms the legal basis for the development of an effective and efficient national food safety system. This law laid the basis for the creation of a State Food Safety Agency which was finally made operational in 2006 and has been gradually employing new staff and developing capacity. Plans for upgrading the system of laboratory testing to allow increased testing of food was developed in 2006 and finance subsequently secured through the World Bank and the EU to assist in developing improved food safety systems in the next years.

To complement the Food Safety Agency and to support the development of an integrated food safety system in B&H, the State Veterinary Office and the B&H Administration for Plant Health and Protection were both modestly strengthened in 2006, with the employment of certain new staff. Further plans for expansion of these offices, their staff and overall capacity, and legal basis, is planned for 2007 to ensure the gradual improvement of food quality on the domestic market and better access to lucrative export markets. This will also include more engagement of the private sector in training and the introduction of new standards including Hazard Analysis and Critical Control Points (HACCP) and International Standards Organization (ISO) standards.

5.4 Budgetary Resources

In the RS total budgetary resources in 2006 amounted ***to*** KM 45 million, in FB&H to KM 36 million and in the District Brcko to KM 9.5 million. On the state level MoFTER had total budgetary resources for agriculture amounting to KM 4.4 million. Over the last four years the budget for sector support has increased considerably in both entities and the District Brcko. This trend – based on the planned budgets, which have been adopted in 2006 - is set to continue in 2007.

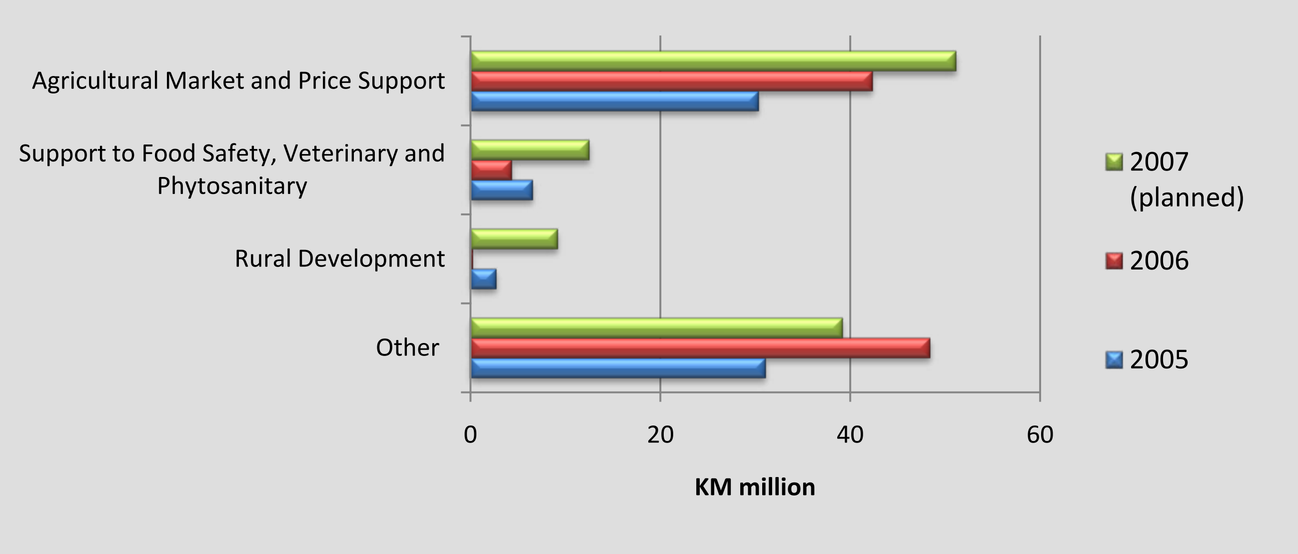
Figure 34: Total Budgetary Resources for Agriculture in B&H



Source: *MoFTER, MAFWM of RS, MAWMF of FB&H, District Brcko Department of Agriculture*

The budget structure in 2007 is envisaged to further increase direct production support to the farmers and increase support for veterinary and phytosanitary measures and for rural development.

Figure 35: Sector Support, by type (2005 - 2007)



Source: *MoFTER, MAFWM of RS, MAWMF of FB&H, District Brcko Department of Agriculture*

On the other hand the planned other expenditures are set to decrease again in 2007 after having been increased considerably in 2006 (compared to 2005). "Other expenditures" include expenditures for capital investments, which considerably increased in 2006 and are set to decrease again moderately in 2007.

5.5 Support Services

Data and information services: During 2006 there were certain improvements in agricultural data collection and publication. The State Statistical Agency has published certain data on the overall performance of sector and on certain sub-sectors but further improvement is urgently required and plans to strengthen the agricultural information systems at all levels have been prepared in 2006, for introduction in the next planning period, including the introduction of a harmonized farm and client registry which will form an important milestone for further enhancement of harmonized collection of data and information in the agricultural sector.

Credit services: In 2006 rural lending through micro-credit institutions remains strong in many rural areas and there is increased evidence of commercial banks gradually developing financial products tailored to the needs of larger scale commercial agricultural producers and emerging rural SMEs. However, commercial banks remain reluctant to provide credit to smaller-scale producers who often lack collateral or secure land tenure. The B&H Government is addressing this problem through the soon-to-be launched Land Registration Programme, which among other things will assist (with the support of the WB and the EU) in establishing a secure and efficient real estate registration system and will complete the cadastre records for eight municipalities in the country. At the end of the programme, people in rural areas will be provided with clear titles, lowering the risks for commercial banks to lend to agriculture. In 2006 certain commercial banks were encouraged to participate in programmes supported by the Entity MoAs, which reimbursed a proportion of the interest paid on agricultural credit provided to targeted farmers.

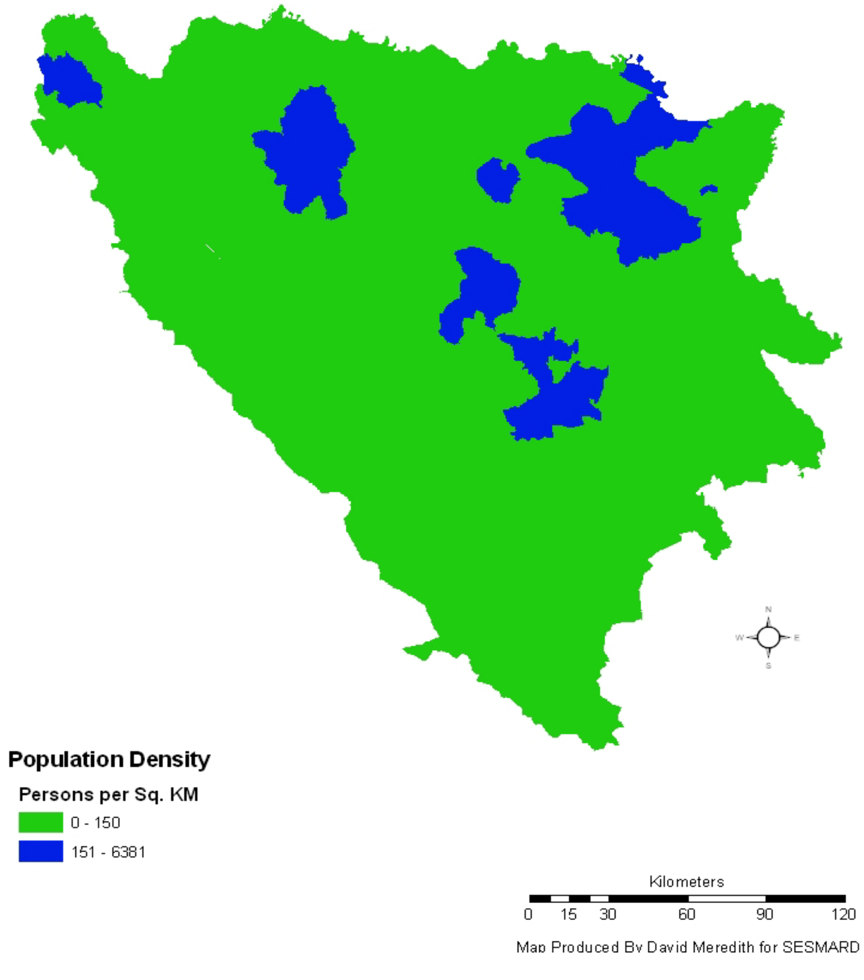
Extension services: Agricultural extension services were established at entity level in 2000 and in the District Brcko in 2002 with the support of an EU project. In the RS the system established remains operational and includes municipal based advisers in most areas, supported by a central support unit with specialist adviser capacity, based in Banja Luka. Generally the service appears to be well appreciated and used, though it remains poorly equipped, under-funded and generally under-manned. In the FB&H the system was established at Canton level but the commitment of most Cantons was limited and no central services were established to support the system. Farmers generally tend to disregard the existing public services and rely, where available, on private providers (though these are very limited).

6 RURAL SITUATION AND DEVELOPMENT

6.1 Main Characteristics of Rural regions

81% of the total land area and 61% of the population can be classified as rural in B&H[2]. 114 out of 143 municipalities are classified as rural and have a population of 2,372,162 persons, a 0.54% fall in total population since 2000.

Map 4: B&H Spatial Assessment, Distribution of Urban and Rural Areas 2005



Source: *EU SESMARD Analysis (2006)*

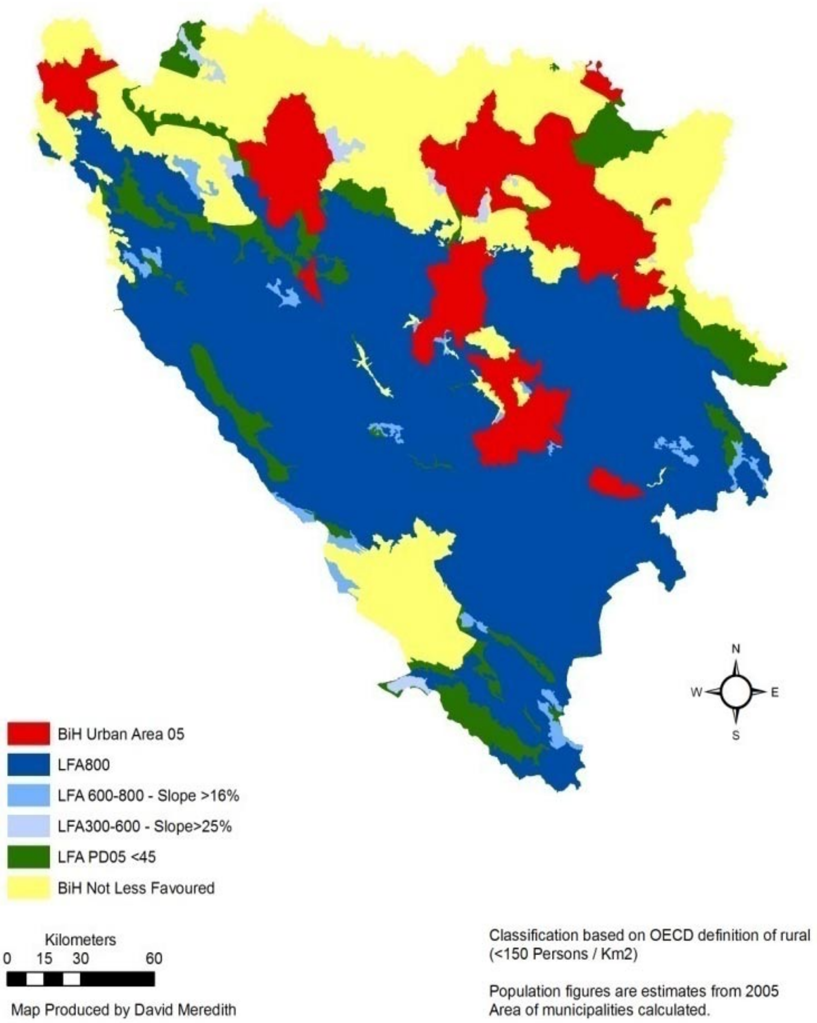
This simple definition covers one aspect of rural regions but it ignores the considerable differences that exist between rural areas and also the important contribution rural resources make to social, economic and cultural development processes. The diversity of rural areas is an important element of rural development policy.

[2] Applying the OECD criteria (i.e. areas with less than 150 persons per km² are considered rural)

Applying the following criteria, which are used in other European countries, much of the country is classified as disadvantaged or less favoured:

1. All land above 800 meters
2. All land 600 – 800 meters with an average gradient exceeding 160
3. All land 300 – 600 meters with an average gradient exceeding 250
4. All municipalities where the population density is below 45 persons per square kilometre.

Map 5: B&H Rural Areas 2005, Less Favoured Areas



Source: *EU SESMARD Analysis (2006)*

The rural areas, which are not classified less favoured are mostly in the north of the country, whereas (with the exception of parts of Herzegovina) the other rural areas in B&H can be considered less favoured.

The challenging physical geography of the country has a significant impact on the distribution of economic activities and population and the location of transportation and communications infrastructure much of which is confined to the river valleys that bisect the country.

Based on the data from the Agency for Statistics of Bosnia and Herzegovina[3] there has been a slow but steady increase in the estimated population since 2000 growing by, on average, 0.46% per annum. Comparing 1991 and 2005 population figures highlights the scale of emigration during the 1990s that more recent return migration has yet to overcome.

A significant percentage, 61%, of the total population, continues to reside in rural areas. The northern part of B&H is more heavily populated than the mountainous areas to the south. The only exceptions to this are those municipalities with larger urban centres e.g. Mostar.

An assessment of rural population change indicates that 28 municipalities have lost 32,000 people whilst 86 have gained approximately 125,000 persons. Municipalities loosing population tend to be mountainous with poor transportation infrastructure.

Assessment of the distribution of the rural population highlights the concentration of population in a limited number of municipalities. These municipalities, which have most of the rural population and

[3] There are disparities between basic datasets of the State and the Entity level

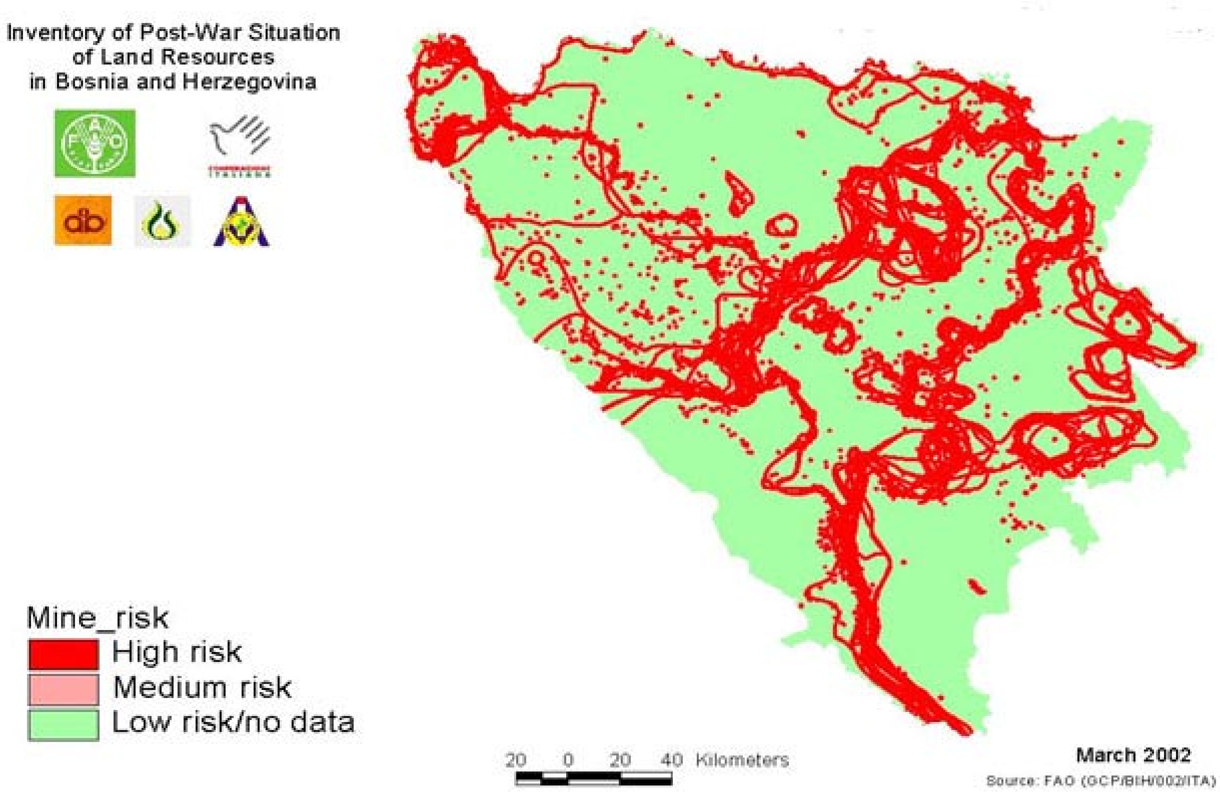
which might - through natural increase and in-migration - become fully urbanised in the years to come, are largely, with the exception of Mostar, located in the northern region.

The demographic dependency ratio[4] indicates that, with the exception of very few municipalities dependency ratios are very high in most municipalities for which data were available. Generally speaking the elderly dependency ratio will increasingly become more of a problem than the youth dependency ratio, as there are currently already relatively few young people in rural areas.

It appears that there are groups of municipalities, particularly in the northwest and around the urban centres where there are relatively few persons over 64 years of age.

The Landmine Impact Survey report provides an assessment of the socio-economic effects of landmines and unexploded ordnances (UXO) on communities in Bosnia and Herzegovina.

Map 6: B&H Mine risk areas



Source: *FAO (2002)*

This survey was conducted from October 2002 to December 2003 and provides an assessment of the impact mines and UXO have at the community level. The analysis highlights that mines and UXO predominantly affect rural communities with villages and smaller settlements accounting for 88% of the total number (1,366) of impacted communities. Though the level of impact varies between communities it is common to find that access to vital rural resources, i.e. fuel supplies and land, is blocked. The issue of mine contamination and UXO is therefore critical and will be addressed to make rural development successful. Spatial analysis suggests a relationship between population decline, the character of the physical landscape and mine contamination. It is thought that the presence of mines and UXO in rural areas deter return migration. Furthermore, the continued presence of mines and or UXO hinders economic development, which in turn results in the out-migration of younger age cohorts, resulting in high dependency levels in rural areas.

[4] The number of persons younger than 15 years in addition to those over 64 years of age expressed as a proportion of the population between 15 and 65 years of age

In 2003, in the rural areas in Bosnia and Herzegovina every third employee (34.8%) was employed in agriculture according to estimates based on the LSMS survey. Other important sectors for rural employment include manufacturing (14.21%), construction, (12.98%) and in trade (12.08%). The share of the services in total rural employment was 9.65%, of finances 6.35%, of transport 5.03%, mining 2.85 % and utilities 2.05%.

The primary sector accounts for approximately 10% to 20% of total employment in the north of B&H where the best land resources are located. The secondary sector employment in this area is reflecting the link between agricultural productions and processing activities. Assessment of the distribution of employment in the tertiary sector indicates that municipalities close to urban centres (particularly those in the Una-Sana Canton surrounding Bihac), where there are large proportions of younger people, depend on the tertiary sector.

In general a shift in the economic structure of B&H from dependence on the primary sector to secondary and tertiary activities can be observed. While this trend is positive for the overall sector the relative decline (in absolute numbers the sector is growing) in the primary sector might have serious implications for both rural areas and B&H as a whole. Surveys suggest that mountainous areas, where there are large numbers of elderly persons and which have experienced a population decline, are more likely to depend on the primary sector. Thus the spatial gap within B&H might widen. The housing and transport, communications and energy infrastructure in the rural areas of B&H play an important role in the future rural development of the country. Despite the significant efforts and investments made in improving the quality of housing accommodation and infrastructure in the last 10 years as of 2006 there remains visible evidence of the destruction resulting from the conflict in the 1990ies.

It is estimated that until 2005 270,000 houses were already repaired or re-built out of the approximately 450,000 housing units that were partially or completely destroyed during the period 1992 – 1995. The

Ministry continues to implement a housing reconstruction aid programme, which aims to resettle those inhabitants displaced by the conflict.

There are approximately 20,000 Km of road in B&H, an average of 25 kilometres of road, including national highways and regional and local roads, per 100 Km^2 in B&H. Local roads comprise 60% of the total road length, regional account for a further 23% with national roads equating to 17%.

In 2006 B&H produced 60% of the electricity needed domestically. The remaining 40% were imported from neighbouring countries. Development of the economy will necessitate further import of energy and on the long-term the creation of more domestic power plants. Improved supply of three-phase power to rural areas will foster the development of medium- to large-scale enterprises, i.e. ski resorts, in these locations.

There is the potential of B&H as a location for activity, cultural and heritage based tourism. The physical topography that presents so many challenges to other development activities is perhaps the greatest asset available to B&H in the field of tourism. The country has vast, untapped potential, to develop as a year-round destination for activity-based tourism, one of the fastest growing segments of the global tourist industry. Rural areas in particular have considerable natural resources, e.g. the wonderful mountains, rivers and forests, to draw upon. Furthermore B&H has a long and fascinating history linked to international political and cultural development that is therefore accessible and of interest to tourists.

There are a number of challenges confronting the development of the B&H rural tourism industry not least of which is the perception that the region remains dangerous to visit. Furthermore a strategic plan identifying access points, destinations and attractions is to be developed.

The ability to further develop the agriculture, forestry and tourism sectors as well as rural areas, and to sustain their long-term growth, puts special emphasis on the use and management of agricultural soils, forest, water resources and biodiversity. Efforts have been made recently with the enacting of the new framework law for the environment and the introduction of forest certification. As a next step guidelines for sustainable natural resources management will be formulated.

Civil society movements have been emerging alongside the public bodies and are increasingly playing a role in fostering the sustainable use and protection of natural resources.

Special attention will be put on the balance between nature and traditional economic activities in a number of ecosystems. Currently, less than 1 percent of the territory is under formal protection status. This share will be increased in the coming years. Beyond issues of formal protection, it is planned to upgrade facilities in the current protected areas and to train staff in the responsible institutions. Current efforts to improve the framework for the protection of natural resources and to strengthen institutional capabilities for conservation and sustainable use of biodiversity will be further enhanced in the time to come.

6.2 Water Management

B&H is considered a water-rich country with high potential for hydropower generation. Still, there are certain areas of the country that suffer from soil water deficiency, particularly in the south and where forests are degraded. Water is the limiting factor for the development of high-value crops along the Adriatic Sea. At present, just over 3,000 ha are irrigated.

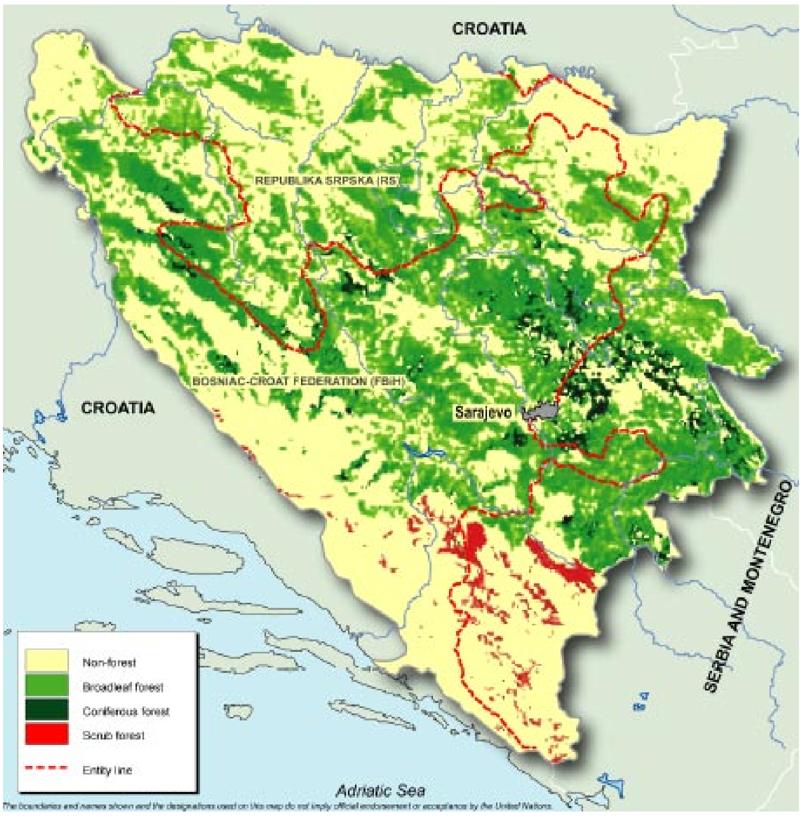
Excessive humidity is a problem in large areas of the country, particularly in Herzegovina. Previously constructed drainage systems are in need of repair or replacement. Progress in the rehabilitation and development of irrigation systems has been achieved in recent years with the support of the "Small Scale Commercial Agriculture Development Project" (SSCADP). In parallel an institutional reform of the management of irrigation systems has been introduced.

The legal framework for the establishment of Water Users Associations (i.e. the Association Law and the Water Management Law) is in place. At present, about 48 Water User Associations (WUAs) have been successfully established and are functioning well, and about 30 WUAs are in the process of being established. In addition, a new Water Law has been adopted to regulate many areas of water resources management in accordance with the EU Water Framework Directive. In the near future supporting regulations safeguarding the implementation of the new law will be initiated.

6.3 Forestry

Forests cover 2.5 million ha or approximately 50% of total B&H territory, with FB&H and RS having approximately the same share in the total forest area. Per capita 0.74 ha of forest are available putting B&H on the sixth place in Europe in terms of forest availability.

Map 7: Forest and forest areas in B&H

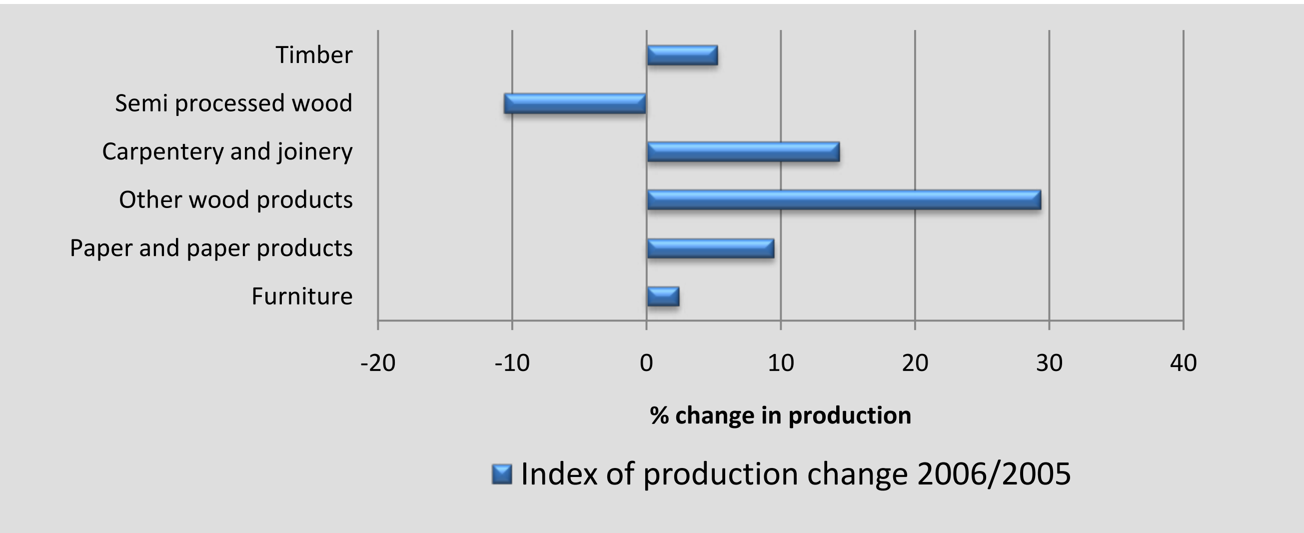


Source: *First national report on the implementation of UN Convention to combat desertification/land degradation in B&H, 2007 pg. 29*

The geology, wide range of altitudes and B&H's position between European and Mediterranean climate systems together with the existing microclimates and soil types has created a rich mosaic of biodiversity. Large areas of the otherwise in Europe almost eradicated virgin forest are situated in B&H. Such beautiful, rich forest can be the basis for the development of different types of rural, educational and alternative tourism.

Forestry is a very important sector of B&H's economy not only with view to the future potential of the forests as a tourist destination but more importantly in the field of wood and wood products production. The highest increase rate of production (2005/04) is recorded by other wood products and carpentry which indicates that product assortments are changing towards the production of value added products. The production of semi-processed wood products decreased on the other hand in 2006. The total growing stock volume of wood was 307 million m^3 (more than 50% of it is broad leaf forest) in 2006. The annual gross increment was 7.9 million m^3 and the actual volume harvested 7.2 million m^3.

Figure 36: Wood processing industry production in 2006 (by sub- sectors)



Source: *Authors calculations of the basis of data from BHAS, First realise: Industry production, 2005 and 2006*

The forestry sector is one of the few sectors in B&H that generates a positive trade balance. For that reason alone it is very attractive for FDI. The inflow of foreign direct capital will ensure the introduction of new technology and improved know-how. Therefore the future perspective of the forestry sector is bright.

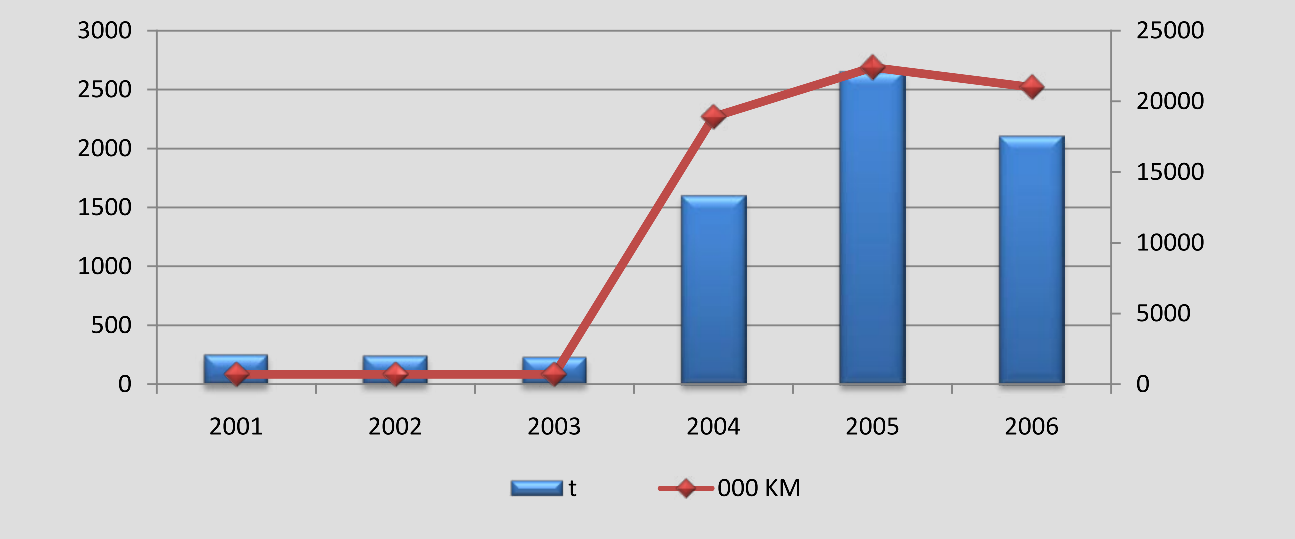
Another encouraging movement in the field of forestry is the process of certification, which was started in the whole of B&H by public enterprises responsible for forestry management. Most of the certificates are harmonized with the ones in the EU and it is expected that this process has a significant positive impact on the sustainability of forest management.

As such the forestry sector was and will be very important for the rural population, especially those around and below poverty line. In order to maintain this valuable source of income it has to be prevented that forest resources are threatened by environmental damages, which as a consequence can cause land erosion, can endanger underground water sources or wipe out certain types of fauna.

Medical and aromatic plants: An important part of forestry is the production of non-wood products, i.e. mostly forest fruits and medical and aromatic plants. Thanks to the very high biodiversity this sub-sector is traditionally a very important source of income generation for a significant part of the rural population. As such it is of special importance for rural development regardless its economic importance in absolute terms.

The sub-sector was, is and will be export-oriented: Almost 85% of the production is exported. Therefore the export data gives, in the absence of reliable production figures, a good indication for the development the sector as a whole.

Figure 37: Export of Medical and Aromatic plants (2001-2006)



Source: *B&H Foreign trade chamber (*data only for FB&H)*

B&H's share on the EU market for organic wild medical and aromatic plant production was 5% in 2006. B&H is recognized on the world and the EU market as a supplier of cheap raw material, which has very rich content (essential oils) but an inconsistent quality level. Therefore prices reached on foreign markets are rather low. To further tap the potential of the sub-sector it is foreseen to encourage domestic producers to process their raw material and to further enhance direct marketing.

The biggest sub-sector problem so far is the illegal and non-skilled harvesting and post-harvest manipulation. To overcome this it is planned to introduce certification, especially organic certification, in order to organize and control the sector. This increases the sustainability of the harvest but also increases the prices internationally.

6.4 Fisheries

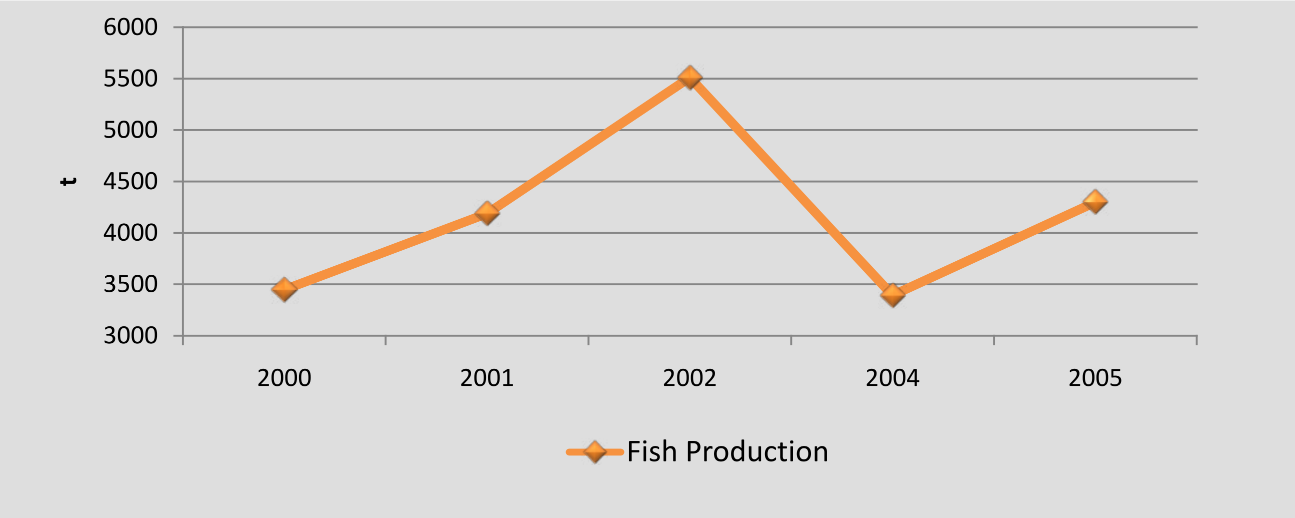
The coastline of Bosnia and Herzegovina measures only 21 km and the country has no sea fishing fleet. Thus fish production consists mainly of trout and carp. Sea fish production is very limited. Bosnia and Herzegovina has made progress in meeting conditions for exporting fishery products to the EU. It is expected that such exports will become possible once a number of outstanding EU requirements related in particular to legislation, laboratories, competent authorities, farms and safety controls have been met.

Fish farming has the potential to employ a significant number of people directly through fish farming or through the establishment of facilities for production of fishery equipment and fish production companies. B&H is rich of clean waters. This, coupled with the anticipated increased demand on the domestic and international market, make a further development of fish farming attractive in B&H. Furthermore fish farming can preserve endangered species.

There are over 40 registered freshwater fish farms operating in B&H and 2 producing saltwater fish and shells. Additionally, there are estimated 40–50 very small, unregistered fish farms. The existing fish farms are being used within around 60% of their capacity. Production increased significantly in the last years. The domestic demand can be met and in the future more emphasis will be put on the export of fish and fish products.

Fishery production in B&H was approximately 4,000 t in 2005, a significant increase compared to 2004 but still slightly less than in 2002.

Figure 38: Fish production in tones (2000 - 2005)



Source: *Chamber of Commerce (2003 data not available)*

"Norfish" in Blagaj and "Tropic" in Banja Luka are the only two companies having capacities for fish processing. Fish processing includes removal of bones and internal organs, and quick freezing of the whole fish. Only about 20% of the capacity is used due to limited access to foreign markets (esp. to the EU). The companies don't fulfil, yet, the food safety and quality standards and thus cannot export to the EU.

Fish consumption is low in B&H. However, there is an increasing trend for consumption of fish. Quite naturally populations living near production facilities prefer fresh to processed fish, whereas populations in big cities consume processed fish more than fresh fish.
Foreign trade is constantly increasing over the last period. Imports are still higher than exports, although the trade deficit has narrowed over the last three years due to increased earnings from exported fish.

ANNEX: LEGISLATION

Legal and Institutional Framework of Bosnia and Herzegovina

The laws which currently regulate the sector and the years of enactment are presented in the following tables[5]:

I. State Laws in B&H

Title of the Existing Laws	No of B&H Official Gazette	Year of Enactment
1. Law on Veterinary Medicine in B&H	34/02	2002
2. General Law on Cooperatives	18/03 55/06	2003 2006
3. Law on Protection of Plant Health	23/03	2003
4. Law on Food	50/04	2004
5. Law on Mineral Fertilizers	46/04	2004
6. Law on Phyto-pharmacy Material	49/04	2004
7. Law on Bottled Drinking Water of B&H	45/04	2004
8. Law on Seeds and Sowing Material of Agricultural Plants of B&H	03/05	2005
9. Law on Protection of New Agricultural Sorts of B&H	46/04	2004
10. Law on the Surveillance of the Quality of the imported and Exported Products	13/03	2003
11. Law on Foreign Trade Policy of B&H	7/98 35/04	1998 2004
12. Law on B&H Market Surveillance	45/04	2004
13. Customs Policy Law of B&H	57/04 51/06	2004 2006
14. B&H Consumers Protection Law	25/06	2006

[5] Last update was on December 2006.

II. Federation of B&H

Title of the Existing Laws	No of FB&H Official Gazette	Year of Enactment
1. Law on Agricultural Land	2/98	1998
2. Law on Drugs in Veterinary Medicine	15/98	1998
3. Law on Water	70/06	2006
4. Law on the Measures for Improvement of Cattle Raising	23/98	1998
5. Law on Recognition and Protection of Agricultural and Forest Plant Species	31/00	2000
6. Law on Seeds and Seedlings of Agricultural Plants	55/01	2001
7. Law on Tobacco	45/02 42/04	2002 2004
8. Law on Financial Support to the Primary Agricultural Production	28/04	2004
9. Law on Forestry	20/02 29/03 37/04	2002 2003 2004
10. Law on Seeds and Seedlings of the Forestry and Horticulture Species of Trees and Shrubs	71/05	2005
11. Law on Trade	64/04	2004
12. Law on Inspections in FB&H	69/05	2005
13. Law on Fresh Water Fishery	64/04	2004
14. Law on Hunting	4/06	2006
15. Law on Veterinary	46/00	2000
16. Law on Concessions	40/02 61/06	2002 2006

III. Rep. Of Srpska

Title of the Existing Laws	No of RS Official Gazette	Year of Enactment
1. Law on Brandy and Wine	3/97	1997
2. Law on Tobacco	4/97	1997
3. Law on Agricultural Land	93/06	2006
4. Law on Plant Protection (except Art. 85-88 have been annulled by Art. 90 of the RS Inspections Law)	13/97	1997
5. Law on Seeds and Sowing Material (except Art. 55, 56, 57 and 58 have been annulled by Art. 90. of the RS Inspections Law)	13/97	1997
6. Law on Agriculture	70/06	2006
7. Law on Provision and Allocation of Funds for Stimulating Agriculture and Rural Development	43/02 44/02	2002 2002
8. Law on Forestry	66/03 53/05 91/06	2003 2005 2006
9. Law on Water	50/06	2006
10. Law on Animal Protection and Veterinary Medicine (except Art. 116-128 have been annulled by Art. 90 of the RS Inspections Law)	11/95 10/97 52/01	1995 1997 2001
11. Law on Organic Production of Food	75/04	2004
12. Law on Fishery (except Art. 38, 39 and 40 have been annulled by Art. 90. of the RS Inspections Law)	4/02	2002
13. Law on Inspectorate	113/05	2006
14. Law on Fertilizers	35/04	2004
15. Law on Trade	16/96 25/96 52/01 37/06	1996 1996 2001 37/06
16. Law on Hunting (except Art. 77, 78 and 79 have been annulled by Art. 90 of the RS Inspections Law)	4/02	2002
17. Law on Cattle-Breeding	34/06	2006
18. Law on Veterinary Drugs (except Art. 45-52 have been annulled by Art. 90 of the RS Inspections Law)	37/02	2002
19. Law on Concessions	25/02 91/06	2002 2006

IV. Brcko District B&H

Title of the Existing Laws	BD Official Gazette Number	Year of Enactment
1. Law on Tobacco	35/05	2005
2. Law on Hunting	23/06	2006
3. Law on Agricultural Land of Brcko District B&H	32/04 20/06	2004 2006
4. Law on Financial Support to the Agricultural Production	11/06	2006
5. Law on Fresh Water Fishery of Brcko District B&H	35/05	2005
6. Law on Measures for Improvement of Cattle Raising	23/06	2006
7. Law on Forestry	23/06	2006
8. Law on Trade	40/04	2004
9. Law on Brandy and Wine	35/05	2005
10. Law on Water	23/06	2006
11. Law on Water Protection	25/04 1/05	2004 2005
12. Law on Agricultural Cooperatives	19/02	2002

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